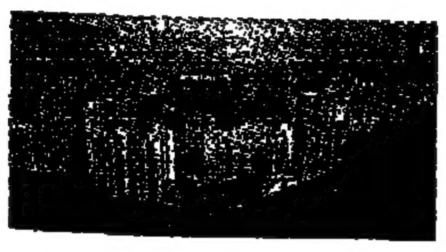

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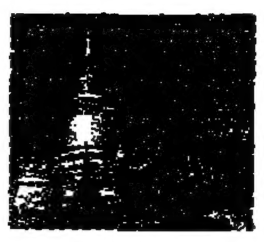

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Behind the Swiss vote – disarray in toy town

FT NEWSPAPER OF THE YEAR

FINANCIAL TIMES

Europe's Business Newspaper   FRIDAY DECEMBER 4 1992   D8523A

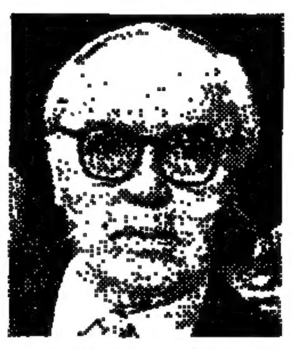
Outlook improves for agreement at European summit

Unexpected progress towards an overall agreement at next week's European summit in Edinburgh was made yesterday on two of the main issues – Denmark's demands for "clarification" of the Maastricht treaty and the future enlargement of the European Community. EC governments *last night gave a cautious welcome to British* proposals aimed at making the Maastricht treaty acceptable to Denmark. At the same time, Germany and France agreed that negotiations on the enlargement of the EC should start at the beginning of next year and be completed at the end of 1993. **UK proposals, Page 22; Franco – German deal, Page 3; Editorial Comment, Page 20; Why France is afraid, Page 20; Survival will suffice, Page 21**

Battle halts airlift: Relief flights to Sarajevo were suspended for the third day running as relentless artillery fire pounded the Bosnian capital's Moslem-held suburbs. Meanwhile international pressure grew for UN military intervention to halt the bloodshed. **Calls for tough action, Page 3; Editorial Comment, Page 20**

Somalia: France may send troops to a military force organised by the United Nations to get food to starving Somalians. The French contribution of about 2,000 men would be added to the 20,000 offered by the US. **Page 22**

Bombs rock English city: Sixty-four people were injured when two bombs exploded in Manchester, a big provincial city in northern England. A telephoned warning was given only after the first bomb had gone off. **Page 8**



Gutfreund deal: Salomon Brothers' former chief executive John Gutfreund (left) is to forfeit $100,000 to settle charges that he and three other ex-executives of the Wall Street securities house failed properly to supervise the firm's government bond trading desk between 1989 and 1991 when there was illegal bidding during Treasury auctions. **Page 23**

Japan: The economy is slipping dangerously close to outright recession, according to government figures which show the economy contracting at 1.6 per cent a year in the third quarter. **Page 4**

General Motors of the US is to close nine more North American plants and dispose of some components operations as part of its sweeping restructuring plan. More than 18,000 jobs will go. **Page 23**

Grand Metropolitan, food, drink and retail group, reported full-year taxable profits down 5.1 per cent to £902m ($1.3bn). Strong gains from the IDV drinks division were offset by lower earnings from the Pillsbury and Green Giant food operations. **Page 23; Lex, Page 22**

Minister to sue newspapers: Norman Lamont, Britain's chancellor of the exchequer, has engaged leading libel lawyers to take action against five newspapers over the affair of his *credit card transactions.*

Ford Mondeo: Pre-production models of the car that will replace the Ford Sierra in Europe early next year have gone on test with fleet users in Germany, the UK and Finland. The Mondeo, which cost almost $6bn to develop, is the first car engineered by Ford in Europe for production and marketing in Europe and North America. **Ford may cut European workforce, Page 3**

Swedish air crash: Three people were killed when a small aircraft crashed near Stockholm city airport and set a block of flats on fire. All three victims were Swedes.

Oil tanker ablaze: A Greek oil tanker broke in two and caught fire after running aground off La Coruña in northern Spain. Oil began began spilling into the sea, threatening the coast with a disastrous oil slick. **Picture, Page 22; Tanker ablaze, Page 3**

■ STOCK MARKET INDICES		
FT-SE 100:	2,771.0	(+6.9)
Yield	4.37	
FT-SE Eurotrack 100	1,055.11	(+3.0)
FT-A All-Share	1,312.13	(+0.2%)
Nikkei	17,280.88	(−133.6)
New York lunchtime		
Dow Jones Ind Ave	3,276.53	(−9.72)
S&P Composite	429.72	(−0.17)
■ US LUNCHTIME RATES		
Federal Funds:	$3\frac{1}{16}$%	
3-mo Treas Bills: Yld	3.353%	
Long Bond	$100\frac{5}{8}$	
Yield	7.566%	
■ LONDON MONEY		
3-mo Interbank	$7\frac{1}{16}$%	($7\frac{1}{4}$%)
Liffe long gilt future:	Dec $100\frac{1}{32}$	(Dec $98\frac{11}{16}$)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Jan)	$18.125	(18.375)
■ Gold		
New York Comex (Dec)	$335.5	(335.9)
London	$335.75	(336.45)

■ STERLING		
New York lunchtime:		
$	1.5683	
London:		
$	1.5665	(1.5485)
DM	2.475	(2.4325)
FFr	8.425	(8.295)
SFr	2.21	(2.1575)
Y	195.25	(192.75)
£ Index	80.5	(79.5)
■ DOLLAR		
New York lunchtime:		
DM	1.581	
FFr	5.3775	
SFr	1.41	
Y	124.635	
London:		
DM	1.5805	(1.571)
FFr	5.3775	(5.3575)
SFr	1.4115	(1.3925)
Y	124.65	(124.4)
$ Index	65.2	(same)
Tokyo close Y 124.55		

Austria	Sch30	Greece	Dr250	Lux	LFr60	Qatar	QR12.00
Bahrain	Din1.250	Hungary	Ft162	Malta	Lm0.50	S.Arabia	SR11
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lv25	India	Rs20	Neth	Fl 3.50	Spain	Pta200
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2500	Oman	OR1.50	Syria	SyP50.00
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Thailand	Bht50
Finland	FM12	Korea	Won 2500	Philippines	Pso45	Tunisia	Din1.250
France	FFr8.50	Kuwait	Fils.600	Poland	Zl 22,000	Turkey	L6000
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190	UAE	Dh10.00

Shares fall sharply as Britain is warned over its democracy proposals for colony

Beijing threatens to end deal on Hong Kong

By Simon Holberton and Simon Davies in Hong Kong

THE ROW between Britain and China over democracy in Hong Kong deepened yesterday when Beijing hinted that it might revoke the 1984 Sino-British agreement on the colony's future.

The warning is the latest move *in the campaign by Beijing to* persuade the UK to withdraw its proposals to extend the scope of democracy in Hong Kong.

In the 1984 joint declaration Beijing promised the territory would be allowed to maintain its capitalist system for 50 years.

The threat came after the Hong Kong stock market registered its largest one-day drop in share prices since June 1989 when the Tiananmen Square demonstration and the suppression of the Beijing democracy movement led to a more than 20 per cent fall in the market.

At the close yesterday, the Hang Seng index, the market's barometer, was 434.44 points, or 8 per cent, lower at 4,978.21. Since its peak three weeks ago, the index has fallen nearly 23 per cent. Selling was frantic, with turnover of HK$5.3bn ($688m). A

■ China's market force
■ Patten urged to adopt less abrasive style   Page 4
■ World markets   Page 54

investment banking group became the first casualty of the collapse of confidence when it was *forced to withdraw its HK$300m* flotation. Other new issues appear likely to be postponed.

The only outcome which would satisfy the business community would be for the governor, Mr Chris Patten, to drop his proposals immediately. But, even with the stock market down more than 1,000 points this week, there is little expectation this will happen. In Beijing, the foreign ministry said the issue facing Britain was now "whether the Sino-British Joint Declaration and the other agreements reached between the two sides are still needed".

The ministry added that the only way to solve the problem was for the "British Hong Kong authorities to return to the agreements reached between China and Britain".

Last night the Hong Kong government said Britain had made clear it was "prepared to hold discussions without preconditions" with China on matters relating to a smooth transition of sovereignty in 1997. It said it was committed to the full implementation of the joint declaration.

The rapid deterioration in Sino-British relations has caused serious concern among the people of Hong Kong and their political leaders. Local legislators were critical of China's scare tactics and feared for the effect they were having on local morale.

Further volatility in Hong Kong share prices appears inevitable. Already market conditions have undermined the new issues market. South China Brokerage, which yesterday withdrew its HK$300m flotation due to be launched on Monday, said: "Under these conditions, there is no point in putting pressure on underwriters."

Separately, the company has also become the first securities house in the current climate to invoke the *force majeure* clause in an underwriting agreement. The clause permits the withdrawal of an underwriting commitment in situations of material and unforeseeable change.

South China had underwritten a HK$72m covered warrant issue on China Light and Power shares; by last night, the shares were 22 per cent below the warrant's strike price.

Chris Patten: the Hong Kong business community wants his proposals for political development dropped

Major set to seek Clinton's support

By Simon Holberton in Hong Kong

MR JOHN MAJOR, the British prime minister, is expected to ask US president-elect Bill Clinton to see Mr Chris Patten, Hong Kong's governor, as soon as possible after his January 20 inauguration.

Britain hopes to persuade the US not to place conditions on its renewal of China's most favoured nation trading status, in part because of the effect it would have on the Hong Kong economy.

At the same time, Mr Patten hopes to win Mr Clinton's endorsement for his plans for *more democracy* in the colony. It is hoped that the US could, behind the scenes, support the governor's proposals.

"The US is the only country in the world that has any influence on the Chinese leadership," said one British official.

The manoeuvre will have to be conducted carefully. China is already incensed by what it sees as the "internationalisation" of the Hong Kong issue. Canada, Australia and the US have been criticised by Beijing for supporting Mr Patten's proposals.

Mr Clinton will be required by June 3 next year to approve China's MFN renewal. During Mr George Bush's presidency, Democrats in both houses of the US Congress have favoured placing conditions on MFN renewal

Continued on Page 22

Recession threatens as west German GNP falls

By Christopher Parkes in Frankfurt

GERMANY slid further towards recession in the third quarter this year and new indicators suggest the downturn is accelerating.

Gross national product in the west of the country fell a real 1.5 per cent between the second and third quarters of this year, official figures show. Industrial output has fallen sharply since and unemployment has risen further.

Meanwhile, the number of company failures has grown by 13 per cent this year after falling steadily for the previous seven.

Mr Jürgen Möllemann, economics minister, said the latest growth figures were a clear warning of a further downturn, which must be avoided if recovery in the east was not to be hit. Mr Möllemann and Chancellor Helmut Kohl have both recently described conditions as recessionary, but the Bundesbank says the economy is "returning to normal" after rapid post-unification growth.

There is worse to come, according to the Ifo economics institute in Munich, which yesterday forecast a real 3 per cent drop in industrial output in 1993, after a 1.5 per cent decline this year.

The one bright spot was a wages settlement, reached overnight, giving steelworkers a rise of just over 3 per cent for 18 months. This deal, together with moderate demands from other unions, suggests the economic downturn and the prospect of job losses have had a powerful impact on wage hopes.

The Bundesbank would see this as a positive indicator, but on its own insufficient to cut interest rates, economists said.

Real GNP in the third quarter was unchanged – officially "minus 0.0 per cent" – compared with the same period last year. Year-on-year growth in the first quarter was 3.2 per cent, but this dipped to only 0.6 per cent in the second quarter.

Gross domestic product, which excludes overseas earnings, was a real 1 per cent up on the comparable period of 1991. However, this measure was 0.5 per cent down on the previous quarter, continuing a falling trend.

According to the economics ministry, capital spending fell a real 3 per cent in the three months under review and private demand dropped 0.5 per cent.

Other figures indicate further weakening. West German manufacturing industry output in September and October was 2.6 per cent lower than a year earlier. Production of capital goods and consumer products slumped 3.9 per cent and 3.6 per cent respectively.

The impact on the labour market showed up in an unadjusted rise of 54,000 in west German unemployment during November and an increase of more than 150,000 to almost 500,000 in numbers working short-time. Meanwhile the number of vacancies fell by more than 30,000.

According to Mr Heinrich Franke, head of the Labour Office, the jobless total in the west could rise to 2.1m next year, assuming forecasts of nil economic growth are correct, and 1.2m – about 120,000 more than now – in the east.

Bleak forecast, Page 2
Lex, Page 22
Strong growth by banks, Page 23

Weakness of D-Mark eases devaluation fears for franc

By Peter John, Emma Tucker and Tracy Corrigan in London

FEARS that the French franc would have to be devalued retreated yesterday after a much weaker D-Mark gave the currency a temporary reprieve.

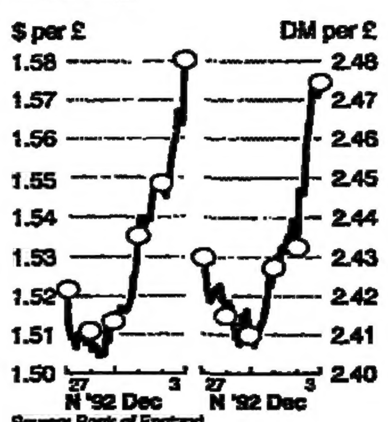
A string of gloomy economic figures from Germany, and news that the steelworkers had agreed on a low wage settlement, sent the D-Mark sharply lower against other European currencies and the dollar.

Ireland, meanwhile, arranged to borrow up to DM4bn ($2.5bn) from German banks to support the punt, which has been under strain within the European exchange rate mechanism.

Ireland's National Treasury Management Agency organised the loans with a group of leading German banks, including the country's three largest, Deutsche, Dresdner and Commerzbank.

Dublin's strategy to defend the currency resembles the UK's Ecu10bn ($12.3bn) borrowing programme announced on September 3 in an effort – ultimately unsuccessful in Britain's case – to hold sterling above its ERM floor.

Sterling



Source: Bank of England

In London yesterday, the pound benefited from its position outside the ERM to gain heavily against the D-Mark and the dollar. It ended the day almost 4 pfennigs stronger against the German currency at DM2.4750, its highest close for almost six weeks. Against the dollar it closed at $1.5665, just under two cents stronger on the day.

The franc was buoyed early in the day by a statement from Mr Michel Sapin, the French finance minister, that France and Germany would do all they could, jointly, to preserve the parity of the franc and D-Mark.

His statement, together with small amounts of intervention by the French central bank, pushed the franc higher against the D-Mark to close at FFr3.404, comfortably above its ERM floor of FFr 3.4305.

Selling of the D-Mark which had started in the Far East overnight, accelerated when the European markets opened.

The D-Mark's loss was the pound's gain as investors switched funds. "I think the pound is benefiting from the fact that it has formed a solid base at around DM2.40 and is outside the turmoil of the ERM," said Mr Stephen Hannah, head of research at IBJ International.

But many analysts remained sceptical that the jump in sterling heralded much more than a temporary reassessment. Mr Brian Hilliard, an economist at Société Générale Strauss Turnbull said: "It is a very encouraging development and shows that there is at least some floor under sterling, but we don't see this as a significant breakout."

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NEWS: EUROPE

Toxic town plays for time at the edge of hell

Kerin Hope reports from Mojkovac, Montenegro, where 3.5m tons of metallic waste threaten an environmental disaster

FOR 15 years the town of Mojkovac in Montenegro, part of the rump of Yugoslavia, watched the dam covering what used to be its football pitch fill up with millions of tons of poisonous mining waste.

"In the summer the water on top evaporated and gave off a mist that affected people's breathing. We knew the dump was hazardous, but our requests for a study were ignored for years," says Mr Miso Stanisic, the mayor.

Mojkovac's problem now threatens to turn into an international environmental disaster. Freak floods in October caused the Tara river to burst its banks, washing away the base of the dam along a quarter of its 600-metre length.

Despite United Nations-assisted efforts to repair the dam over the past two weeks, there is still serious risk that the damaged part may collapse, releasing some of the 3.5m tons of toxic waste it contains into the Tara, which flows into the Danube above Belgrade.

"Below a sandy crust, the sludge is extremely unstable and it is steadily pushing forward against the weak part of the dam. It could give way at any time," said Mr Thomas Dolder, a civil engineer advising the UN disaster relief organisation.

Even a relatively small discharge could kill fish and aquatic plants in the Tara, a Unesco-protected waterway which the Montenegrans call "the cleanest river in Europe", and make the water undrinkable in the Drina, Sava and Danube rivers all the way to the Black Sea.

Floods, the worst that anyone in Mojkovac can remember, could not have come at a more difficult moment, given that Montenegro is included in the UN embargo on trade with Yugoslavia and now has little contact with the rest of Europe. It was several weeks before the republic's request for aid following the floods reached the UN.

Although sanctions were lifted to permit the delivery of 1,600 steel cages and other dam protection equipment, Montenegran officials blamed the embargo for the slow pace of repairs.

Not enough bulldozers and excavators are at work on the site. While floodlights are positioned around the dump, allowing for round-the-clock activity, there are no light bulbs to be found.

According to UN divers, the dam be touched up in just two days if work speeded up sufficiently.

However, fuel is only available on the black market at high prices and Montenegro's new private contractors are not necessarily willing to accept the low rate offered by the public works ministry, responsible for repairs.

Some of Mojkovac's 11,000 residents will even admit to wishing the dump could be washed downstream and out of their lives. Launched in 1976, the Briskovo zinc and lead mine project was supposed to boost the local economy by reopening a Medieval mine that had provided silver for Serbia's first coinage.

At its peak, the mine produced 4,500 tonnes of lead and zinc annually, but only a small quantity of silver.

"It was considered a successful enterprise, bringing in about $6m (£3.9m) a year, so nobody paid much attention to the effects of the dump," says Mr Borislav Medovejic, the director of the ore processing plant.

Up to 35,000 tonnes a year of sludge containing high levels of both zinc and lead – as well as other heavy metals like mercury and cadmium were poured into the dam. The dam, made of compacted sand and gravel, was lined with thick plastic sheeting to prevent the metal residue from seeping into the ground water. When production at the mine was stepped up in 1980, in response to demand from Zorka Savac, the federal Yugoslav mineral exporting company, the dam had to be enlarged.

"It's in the past two years that we really started to notice the effect of living next to the dump.

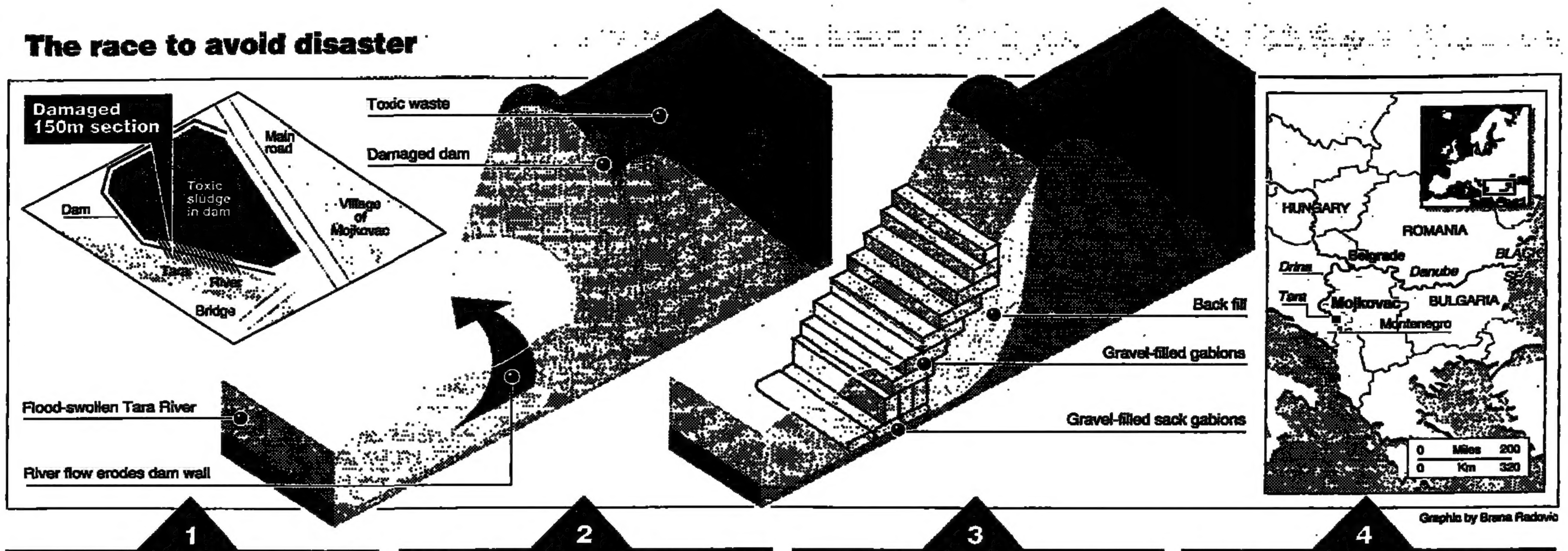
"The number of lung cancer cases has doubled and there have been 18 suicides, which I attribute to the effect of mercury on the central nervous system," says Dr Radovan Jovanovic, head of the town's medical centre.

When the mine shut down last year, after the Yugoslavs lost their market in the former Soviet Union, it looked as if Mojkovac's increasingly active ecological association would at last get a hearing.

The republic's post-communist government is keen to underline its concern for the environment. A plan was begun for covering the 20-hectare site with a thick layer of clay and topsoil.

That scheme has now been overtaken by events. "Even if we manage to secure the dam, the waste cannot just be covered up. There is probably lead and zinc left, because of inefficient extraction, to make further processing commercially viable. But after that's done, it will still be very expensive to make the site safe," Mr Dolder said.

The race to avoid disaster



1 An estimated 3.5m tons of toxic waste – lead, zinc, cadmium, cyanide – contained by the 600m long Jaloviste dam alongside the Tara River in the mountains of Montenegro

2 The flood-swollen Tara damages 150 metres of the compacted sand and gravel dam last month, threatening to cause what UN officials say could become an "absolute disaster"

3 The system of back-fill and stacked gabions – chicken-wire cages filled with gravel or crushed stone – which UN engineers are now racing to erect by Christmas

4 At stake, say UN officials, is not only the poisoning of "everything that lives" in the Tara, but "probably in the Danube as well" as it flows from Belgrade to the Black Sea

Graphic by Brana Radovic

Bleak forecast for German production

By Quentin Peel in Bonn

THE OUTPUT of west German manufacturing industry is expected to decline by 1.5 per cent this year, and by up to 3 per cent next, according to the latest industrial forecast by the Ifo economic research institute.

The gloomiest outlook of all is for truck and commercial vehicle manufacturers, where output is expected to fall by 8 per cent this year, and 10 per cent in 1993.

The chemical industry is likely to be least affected by the downturn, according to Ifo, with an expansion of output of 1.5 per cent in 1992, followed by a slight decline of 1 per cent next year.

A bleak picture for the whole industrial sector in western Germany emerges from the Ifo survey, the most reliable and comprehensive to be published on the economy.

It says that the starting point for manufacturing industry next year is significantly worse than it was one year ago. Thanks to a steady fall in orders, order books now stand at an average of 2.6 months' production, compared to three months' at the end of 1991. Capacity utilisation has fallen from 87 per cent to 83 per cent over the same period.

In October, 1991, just 16 per cent of the companies answering Ifo's industry survey reported disruption of production through a shortage of orders. The figure was 28 per cent last month.

As for the number of companies intending to reduce their workforce over the next three months, the proportion has shot up from 19 per cent last year to 44 per cent today.

The survey predicts a drop in output in the mechanical engineering industry of 6 per cent this year and 3-4 per cent next year, although the plight of the industry is less bad than it might have been, thanks to continuing strong expansion in demand from east Germany: up 20 per cent in 1992, and a forecast 18 per cent next year.

The massive publicly-funded investment in east Germany is also a key factor in preventing a more serious downturn in the electrical engineering industry, particularly because of spending on transport infrastructure and telecommunications. The forecast for that sector is an output drop of 1 per cent this year, and up to 2 per cent next year.

Where the downturn is most severe, its extent has been aggravated by the end of the surge in demand between 1989 and 1991 fuelled by unification. In that period, output of light commercial vehicles increased by 94 per cent, and of heavier vehicles by 70 per cent.

In the first three quarters of 1992, deliveries of light vehicles in Germany was down by 8 per cent, and of heavier vehicles by 11 per cent. That slump is expected if anything to accelerate next year.

Diplomats told of efforts to stop racist attacks

Kohl calms foreign concern

By Judy Dempsey in Bonn

CHANCELLOR Helmut Kohl yesterday sought to reassure the international community that Germany was doing everything possible to curb right-wing extremism and halt the violence against foreigners.

His remarks in his annual address to the diplomatic corps, coincide with reports from Germany's ambassadors in Washington, Paris and Jerusalem about the potentially adverse effect on trade and tourism if the violence continues.

Sixteen people have died in more than 1,900 cases of arson and attacks on foreigners since January.

Mr Kohl, who has been accused of responding too slowly and too late to the right-wing violence, said that attempts to curb it "were not appreciated everywhere. No one here is playing down the problems.

"The overwhelming majority of Germans condemn xenophobia," said the Chancellor, who only the previous day, during a Bundestag debate on the Maastricht treaty, made an unusual and impassioned plea for tolerance and an end to racist attacks. "Anyone who puts human life at risk, who stirs up hatred, or sows violence, must, and will, feel the full force of the law," he promised.

The German authorities have started to take steps to ban right-wing extremist groups, following the murder of three Turkish citizens last week and the resulting mass demonstrations against such attacks.

Measures are also being introduced to curb illegal immigrants seeking asylum in Germany, by amending the contry's liberal asylum law, as well as restricting the number of *Aussiedler*, or ethnic Germans, of whom 2m live in the former Soviet Union, Romania and Poland.

The *Aussiedler* have an automatic right to German citizenship, housing and social welfare benefits. More than 26,000 of them arrived in Germany in November, nearly 9,000 more than in the same period last year; 200,000 have arrived since January.

The Interior Ministry this week proposed restricting the number by making the end of 1995 the final day for applying to live in Germany, and by allowing only the first generation of those born after the war to be admitted as *Aussiedler*.

IG Metall deal raises hope for inflation fight

HOPES are rising in Germany of a strike-free and inflation-beating pay round for 1993 in the wake of two trend-setting settlements, writes Christopher Parkes in Frankfurt.

In the early hours of yesterday, IG Metall, the most powerful union in the country, accepted a basic deal for steel workers worth between 3 per cent and 4 per cent over 18 months. This followed a 12-month, 4.2 per cent agreement in the insurance industry.

Compared with forecast inflation of less than 4 per cent and expected average productivity gains of around 2 per cent next year, the settlements suggest that pay-induced pressure on the price index could ease significantly if remaining negotiations reach similar conclusions.

Economists suggested that would remove one of the main obstacles in the way of a cut in German interest rates, but they stressed that public spending and money supply growth still had to be brought under control before changes could be expected. The next test of the mood will come in negotiations between federal, regional and local government employers and the ÖTV public services union. Government advisers have urged rises of less than 3 per cent – nil in some cases – while ÖTV posted a claim for a 5 per cent rise.

Rising unemployment and sweeping job cuts have markedly dampened union aggression. But Construction workers, whose current agreement runs out in the spring, may be more ambitious. The building industry is one of the few in Germany still growing.

Ukraine's deficit takes off

By Edward Balls and Chrystia Freeland in Kiev

UKRAINE's budget deficit, which has grown to 44 per cent of gross domestic product, has pushed the country into hyper-inflation, the government's senior economic minister said yesterday.

Mr Viktor Pynzenyk, deputy prime minister and the architect of Ukraine's reform program, said the deficit had more than tripled since the summer.

But price liberalisation and rapid privatisation measures were being delayed by conservatives in the cabinet, he said.

The cabinet may decide tomorrow on a decree freeing prices in the Ukraine and reformers are cautiously optimistic it will be signed.

Monetary financing of the budget deficit has produced accelerating inflation and contributed to the collapse in the value of the Ukrainian currency in recent months.

"We have not yet managed to stop hyper-inflation," Mr Pynzenyk said, "but the central bank is no longer issuing credits".

Mr Oleksandr Savchenko, the government's top economic advisor, estimates that the underlying monthly inflation rate was 60 per cent in November and expects it to rise to 100 per cent this month.

The Ukrainian coupon, which, in effect, became a separate currency when Ukraine left the rouble zone a fortnight ago, is trading at 730 coupons to the dollar, a near 300 per cent depreciation since August.

Yeltsin seeks to become master of the economy

By John Lloyd in Moscow

PRESIDENT Boris Yeltsin, has proposed a sweeping increase in his powers over the economy, virtually excluding the Russian parliament from any competence in the field.

A resolution released yesterday by Mr Yeltsin's office to be put to the Congress of People's deputies later this week or next, and now the subject of furious behind the scenes debate and negotiation, would also give Mr Yeltsin the right to appoint the government and to make the final judgment on all legislation proposed by the parliament.

The proposal, in effect, would usher in a system of presidential rule in most important areas of government.

However, the draft resolution is being treated as a bargaining ploy rather than a fixed intention, and is the subject of discussions not just between the parliamentary factions but also between the president, the government and the powerful Civic Union group.

Mr Vassily Lipitsky, leader of the Free Russia party within the Civic Union, said yesterday that "everything was open for negotiation" on the president's powers.

A series of constitutional changes proposed by the deputies will be tabled today – one of which will give parliament the right to veto not just the prime minister, but all the deputy prime ministers and the main cabinet ministers as well.

In a fierce argument about whether or not the debate on these constitutional points should be open or closed, liberal and hardline deputies resorted to exchanging blows and wrestling at the base of the podium last night.

This scene involved Mr Vladimir Varov, a liberal deputy, trading ineffectual punches with Mr Ilya Constantinov, a leading nationalist.

It is now clear that both Mr Yeltsin and Mr Yegor Gaidar, the acting prime minister, have decided to show a determined face to a Congress which, while hostile, has so far failed to display a united resolve in moving against them.

Mr Gaidar, in a brief response to a largely critical debate yesterday on the progress of the economic reform, repeated that his government would never back away from its fundamental attachment to private property and a dismantling of controls.

However, he also went on to say that the Civic Union bloc "underestimate our willingness to be flexible".

According to Mr Vladimir Shumeiko, the first deputy prime minister, Mr Yeltsin is completely committed to keeping Mr Gaidar in his post as prime minister – suggesting that he will soon propose him to the Congress.

Sapin looks to 'ultimate stability'

FRANCE and Germany want to build on the stability between their two currencies to achieve the "ultimate stability" of a single money by the end of the decade, Mr Michel Sapin, the French finance minister, said yesterday, writes David Buchan in Paris.

Speaking just before the Franco-German summit opened in Bonn yesterday, the French minister liberally invoked German backing in the long term goal of monetary union and in the short term task of fighting off this week's speculative attacks on the franc.

As during the franc's September crisis, he claimed: "Those who want to break the franc-mark link will find themselves confronted by the solidarity of the two ministers [of finance] and the two central banks." The franc closed higher yesterday, at FFr3.40 to the D-mark against FFr3.41 the day before. Mr Paul Hammett, a Paribas analyst, said there was no economic or political reason to believe the franc would be devalued. He said France supported the idea of a European growth initiative.

UK accused over environment issues

By Andrew Hill in Brussels

BRITAIN was yesterday accused of trying to undermine EC environment policy by pressing for the withdrawal of certain sensitive proposals from Brussels.

According to a document obtained by Mr Ken Collins, the British Labour MEP who chairs the European parliament's environment committee, the UK would also like to abort or amend more than 20 proposals in the fields of social affairs, company law, transport and telecommunications.

Mr Collins asked Mr Michael Howard, the UK environment secretary, to comment on suggestions that environmental proposals might be withdrawn in the interests of subsidiarity – the principle that EC decisions should be taken at the most appropriate level.

Mr Howard told the parliament's environment committee he could not comment because member states had not yet discussed the issue of subsidiarity, which will be one of the central points on the agenda at next week's Edinburgh summit. Mr Howard said last month that the summit would not consider the abandonment of environment proposals. After yesterday's meeting, he said he said he could neither confirm nor deny that the UK would ask EC leaders to examine a hit-list of unwanted measures.

Mr Collins said he believed the UK had singled out measures which would set minimum standards for keeping animals in zoos, require national authorities to assess the environmental impact of long-range policy plans, harmonise standards on waste landfill sites, and set requirements for the control of water quality. On the zoos directive, Mr Howard said yesterday that this was "something which member states should be perfectly capable of dealing with themselves".

The document cited by Mr Collins is undated and unattributed. It lays out from a British point of view a range of directives which would be undesirable, including proposals on working time, workers' councils and data protection, and suggests amendments to other measures.

EC unions and business join forces

EUROPEAN unions and employers' organisations will join forces next week to make representations to Mr John Major, UK prime minister, on boosting growth and reducing unemployment in Europe, writes David Goodhart.

The European Trade Union Confederation (ETUC), meeting in London yesterday, complained that unemployment in Europe had reached an "intolerable peak".

The European Commission is predicting a further substantial increase to an EC-wide rate of unemployment of more than 11 per cent. The ETUC, increasingly disappointed by the slow progress of the EC's social dimension, wants the Edinburgh EC summit to adopt the growth strategy it agreed last July with the main European employers' organisations.

That includes a significant reduction of interest rates, a co-ordination of national investment projects in the public and private sectors, and restoring the credibility of convergence through EC-inspired job creation. The ETUC also welcomed the EC's Ecu[illegible] (£3.9bn) infrastructure spending plan.

NEWS: EUROPE

Calls grow for tough action against Serbs

By Robert Mauthner, Diplomatic Editor

THE worsening plight of Bosnia's Moslem population is putting increasing pressure on the international community for firmer action, including military measures, against the Bosnian Serbs.

The Islamic countries, in particular, have stepped up their campaign for the use of force against the Bosnian Serbs, whose "ethnic cleansing" campaign has been responsible for the deaths or expulsion from their homes of tens of thousands of Moslems. Their outrage was expressed at a meeting of the 50-member Organisation of the Islamic Conference in Jeddah, which ended in the early hours of yesterday morning with a call to the United Nations Security Council to review the situation in Bosnia-Hercegovina and the implementation of relevant UN resolutions before January 15.

The more militant of the Islamic countries, such as Iran, are urging the UN to lift its embargo on arms deliveries to Bosnian Moslems and have even said they are ready to send troops to Bosnia, albeit "within the framework of international law".

Such concern is being treated very seriously by western governments, who fear a spread of the Bosnian conflict to Kosovo and Macedonia if the Serbs are not kept in check.

If that happened, a general Balkan conflagration, with the participation of neighbouring countries such as Greece and Turkey, to say nothing of Moslem countries from outside the region, would be difficult to avoid. Even so, most western governments continue to be opposed to full-scale military intervention in Bosnia, which goes beyond the task of military protection for humanitarian aid convoys, such as provided by British and French troops under the UN flag in Bosnia and Croatia.

The reasons for this reluctance were summed up by the British foreign and defence secretaries, Mr Douglas Hurd and Mr Malcolm Rifkind, in separate interviews yesterday.

Mr Hurd stressed that a political solution could not be imposed by the use of outside military force.

Mr Rifkind said that the British government considered it very unwise to get sucked into a civil war by deploying large number of ground forces. "Tens of thousands, probably over 100,000, would almost certainly be exposed to very heavy casualty and would be unlikely to bring peace," Mr Rifkind said.

If that is also the opinion of the other western powers – and all the indications are that France, at least, shares the British view – what are the alternatives which will be discussed at the emergency conference on Bosnia to be held in Geneva on December 16?

International sanctions imposed by the UN can still be tightened further, but no one believes that this alone will change Serbia's policies.

The one military measure that appears to be acceptable to all the western countries, including Britain, is the enforcement of the "no-fly" zone over Serbia, imposed by the UN last October.

Although no violations of the flying ban by Serb fixed-wing aircraft have been reported, the UN has become increasingly concerned that the Serbs are using helicopters to transport their senior military officers throughout Bosnia.

Any decision to shoot down Serb planes violating the ban would have to be authorised by another UN resolution. The original reservations of several members of the Security Council, including Britain and France, have been swept away by the growing realisation that tougher action is necessary.

Other more imaginative steps, including perhaps the creation of safe havens for Moslems on the northern Iraq model, will have to complement such a limited military measure as the enforcement of the "no-fly" zone, if the Islamic countries are to be satisfied.

Editorial comment, Page 20

Serbia's electoral authorities rejected Yugoslav Prime Minister Milan Panic as a candidate for the Serbian presidency yesterday, saying he failed to meet residency requirements, Reuter reports from Belgrade.

The electoral commission said Mr Panic had 48 hours to appeal against the decision, which would end his attempt to remove hardline nationalist rival Slobodan Milosevic from the Serb leadership in elections on December 20.

Serbian law requires all candidates to be a citizen and resident in the country for at least a year. Mr Panic's aides say he fulfils the requirements, having rented a Belgrade apartment for over a year.

A British member of the UN force in Bosnia giving a piece of chocolate to a child in the town of Lljesnica as his armoured vehicle passes through. The British were on a convoy mission to the central Bosnian town of Maglaj, which is the target of daily shelling by Serbian forces

Ford may cut workforce in Europe by 10%

Heavy losses are forcing company into restructuring

By Kevin Done, Motor Industry Correspondent

FORD, the US car maker, is expected to announce shortly a wave of redundancies at its European plants with the elimination of several thousand jobs.

The company, which has fallen heavily into loss in the second half of this year following a record loss in 1991, is preparing a series of restructuring measures which could include a cut of around 10 per cent of the workforce of its European automotive operations which currently totals around 97,400.

In the UK a planned ballot by trade unions at Ford plants for industrial action against compulsory redundancies and a cut in lay-off pay will probably be postponed until January to take account of the next wave of job cuts.

In the UK Ford has already had two rounds of jobs cuts this year with 2,100 redundancies announced in February and 1,550 in September.

Ford said yesterday that it was being forced to cut production at all its European vehicle assembly plants during December in the face of continuing weak sales and excess stocks.

The company, which has slipped to fifth place in the west European new car market, has announced sweeping production cuts at its assembly plants in Germany, the UK, Belgium and Spain as well as at several of its main components plants.

At Genk in Belgium, which produces the Sierra, there will be no car output after December 11 with the elimination of 12 production days, while output of the Transit van there will stopped on six days.

Output of the Ford Fiesta and Scorpio cars at Cologne, Germany, is to be halted for four days during December, while production of gearboxes will be stopped for eight days.

Production of the Escort will be stopped for three days at the Saarlouis plant in Germany, while output of the Escort at Ford's Halewood plant in the UK will be stopped for seven days together with the elimination of four night shifts.

The Fiesta car assembly plant at Dagenham will be closed for five days and the night shift will be cut on four more days while seven shifts will be cut at the Southampton Transit van plant.

The Valencia, Spain plant which produces the Fiesta and Escort cars was closed for a week at the end of November and will lose one more day.

● Ford is spending nearly $6bn to develop and launch the Mondeo, the first mid-sized car that its European and US units will produce and market jointly worldwide.

France and Germany agree on enlargement timetable

By Quentin Peel in Bonn

GERMANY and France agreed last night that negotiations on enlarging the European Community should start at the beginning of next year and be concluded by the end of it.

The clear commitment to a rapid start in the negotiations emerged from discussions in Bonn yesterday between President François Mitterrand and Chancellor Helmut Kohl at their regular Franco-German summit.

However, a senior French official warned that the negotiations could still be held up by failure to reach a compromise on the future financing of the Community, including an increase in funds for the southern member states.

Mr Dieter Vogel, the German spokesman, said that the two leaders were agreed on pressing ahead with the enlargement talks as rapidly as possible. This has been a top German and British priority.

Mr Jean Musitelli, the French spokesman, said the two had also discussed the current state of the Gatt trade liberalisation talks, and agreed they should not be a significant issue at the EC summit in Edinburgh summit next week.

"The problem of Gatt should not weigh down the negotiations in Edinburgh. It is not the central problem."

He said it was clear that the most complicated problem problem was now the future financing of the Community, although this was not a problem between Germany and France.

The budget problem particularly concerns the southern countries of the Community led by Spain, which insist that a substantial increase in funds must be made available before there can be any start to enlargement negotiations.

German officials said earlier that there had been very close and extensive co-operation between London and Bonn and London and Paris on the proposals for Edinburgh.

Mr Vogel said: "The chancellor and the president agreed that an acceptable compromise for the future financing of the EC must be found. On this question the European Council at Edinburgh must come to an acceptable solution."

Challenge to Craxi splits Socialists

By Robert Graham in Rome

THE Italian Socialist party has suffered a damaging split following an abortive attempt to topple Mr Bettino Craxi from the party leadership by his one time protegé, Mr Claudio Martelli, the justice minister.

The split threatens to deepen as Mr Martelli, who made his challenge at a special party assembly last week, has no intention of dropping his bid for the leadership.

Mr Craxi insists he is staying on. He appears to believe he is the person most suited to renovate the party no matter how discredited he has become as a result of the Milan municipal corruption scandal.

Mr Martelli mustered a surprisingly large 33 per cent of the assembly vote against Mr Craxi. This formalised a split between what might be called the official and opposition wings of the party.

Before the corruption scandal broke in Mr Craxi's fiefdom of Milan in February, such opposition was unthinkable. He was the unquestioned leader who had pushed factionalism to the side-lines over the previous decade.

His support at the assembly was deceptive. Many voted for him either because they judged the moment inappropriate to oust him or because they mistrusted Mr Martelli.

If Mr Martelli had secured a majority of votes, the ensuing ructions among the Socialists could have destabilised the four-party government coalition.

UN action on nutrition

By Robert Graham in Rome

THE INTERNATIONAL community is likely to place greater emphasis on nutrition in combating hunger and poverty as a result of a UN-sponsored conference which opens in Rome tomorrow.

The seven-day International Conference on Nutrition is the first time the UN's resources in the Food and Agriculture Organisation and the World Health Organisation have been pooled on such a scale in the struggle to eliminate hunger and reduce malnutrition.

The conference, at which 150 countries will be represented at ministerial level, will absorb $6.9m in UN funds. It will produce no binding resolutions, but the draft declaration contains an ambitious commitment to reduce starvation and famine.

The Financial Times (Europe) Ltd
Published by The Financial Times (Europe) GmbH, Frankfurt Branch, Nibelungenplatz 3, 6000 Frankfurt-am-Main 1: Telephone 49 69 156850; Fax 49 69 5964481; Telex 416193. Represented by E. Hugo, Managing Director. Printer: DVM GmbH-Hürriyet International, 6078 Neu-Isenburg 4. Responsible editor: Richard Lambert, Financial Times, Number One Southwark Bridge, London SE1 9HL. The Financial Times Ltd, 1992.

Registered office: Number One, Southwark Bridge, London SE1 9HL. Company incorporated under the laws of England and Wales. Chairman: D.E.P. Palmer. Main shareholders: The Financial Times Limited, The Financial News Limited. Publishing director: J. Rolley, 168 Rue de Rivoli, 75044 Paris Cedex 01. Tel: (01) 4297 0621; Fax: (01) 4297 0629. Editor: Richard Lambert. Printer: SA Nord Eclair, 15/21 Rue de Caire, 59100 Roubaix Cedex 1. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

Financial Times (Scandinavia) Vimmelskaftet 42A, DK-1161 Copenhagen-K, Denmark. Telephone (33) 13 44 41. Fax (33) 935335.

Japan slides to the brink of recession

By Charles Leadbeater in Tokyo

THE Japanese economy is slipping dangerously close to outright recession, according to government figures published yesterday which show the economy contracting at 1.6 per cent a year in the three months to the end of September.

The Economic Planning Agency, giving its figures for real gross national product in the third quarter, said the outcome was down 0.4 per cent from the previous quarter, largely because public spending failed to offset sharp declines in corporate investment and sluggish consumption.

The most worrying aspect of the figures was a significant fall in public investment despite the government's decision in March to bring forward capital spending programmes. Public investment, which is the main engine of domestic demand growth in an otherwise stagnant economy, fell by 2.7 per cent in the third quarter to Y34,145bn (£180bn).

The worse than expected figures open what will be an intense fortnight in which policymakers have to take crucial decisions about how to stave off recession.

Both the Ministry of Finance and the Bank of Japan maintain publicly that no further easing of policy is yet justified. However, they are likely to come under mounting political pressure to stimulate the economy. A string of business leaders yesterday called on the government to cut taxes next year to prevent a recession.

The supplementary budget needed to enact the Y10,700bn emergency spending programme announced in August is likely to pass through the parliament next week. Details of the 1993 budget are likely to be finalised the week after that for publication over Christmas.

The Finance Ministry is predicting a rise in public spending of only about 1 per cent because tax revenues have fallen steeply. As yet it has shown no signs of bowing to political pressure for tax cuts.

Speculation that the worse than expected performance in the third quarter will lead to a further cut in interest rates will be fanned next week when the Bank of Japan is expected to release a gloomy quarterly survey on the state of the economy.

● The Japanese parliament's lower house yesterday took a step towards reducing the large imbalance in favour of sparsely populated rural constituencies in the country's electoral system by approving the reallocation of parliamentary seats.

Votes in the least populated seats are worth more than three times as much as a vote in the most populated seats.

The bill will add an extra seat to nine electoral districts in densely populated urban areas, while one seat will be removed from 10 less populated districts. This will reduce the discrepancy.

The bill also includes 17 measures designed to meet public criticism of corruption in political fundraising in the wake of the Sagawa Kyubin scandal.

The LDP is expected next week to publish details of more comprehensive electoral reform. This may include proposals to replace large multi-member constituencies with smaller single-member ones.

Zimbabwe wins $1.4bn from west

By William Dawkins in Paris

WESTERN nations have agreed to provide $1.4bn (£920m) of grants, soft loans and commercial loans to Zimbabwe next year, to help the country steer its economic reform programme through the worst drought in living memory.

The package was agreed yesterday at a meeting of 15 country donors organised by the World Bank, to which Mr Bernard Chidzero, finance minister, outlined Zimbabwe's progress in slimming its bloated public sector, dismantling price controls and encouraging the growth of private enterprise.

Western donors had feared that Zimbabwe would be unable to stick to the programme because of the drought and recession, and were understood to have set strict conditions for their help.

The package meets all Zimbabwe's needs for outside finance over the next year. Of the total, 80 per cent is made up of loans and 20 per cent grants. Within this the government plans to borrow just under 15 per cent – $200m – on normal commercial terms, bridging finance to cover the period between aid allocation and payment.

Mr Chidzero said the drought had forced the economy into unexpected decline this year, but stressed that the reforms were nevertheless going ahead as planned. "The people understand what needs to be done," he said.

Bernard Chidzero: reforms will continue despite drought

Government spending had been curbed from 53 per cent of gross domestic product two years ago to less than 47 per cent now. That includes the 18 to 20 per cent of GDP which the state will have spent this year on importing and distributing food to the drought-hit areas. "So if you remove the drought, government spending comes even lower," said Mr Chidzero.

Spending had been cut in nearly all government departments, except for education, health and defence. Mr Chidzero hoped that recent South African incursions into Zimbabwean airspace would not hold up his plans for cuts in the defence budget.

ANC condemns Buthelezi plan

By Patti Waldmeir in Johannesburg

THE African National Congress yesterday condemned Chief Mangosuthu Buthelezi's plan for autonomy in Natal province, which is rapidly emerging as a stumbling block to multi-party negotiations on a new constitution.

The ANC said yesterday it would boycott any referendum called to test the plan, under which the KwaZulu black homeland and white-run Natal would form a new state with strong autonomous powers within a federal South Africa. But Chief Buthelezi, leader of the mainly Zulu Inkatha party, brushed aside condemnation from the government and the ANC and said he would proceed with the poll nonetheless.

The ANC said Chief Buthelezi's purpose was to sabotage national negotiations. The chief "has chosen the path of conflict and confrontation which can lead to intensified violence," it said, adding that his plan amounted to "enforced balkanisation on the model of the apartheid past".

Meanwhile, the ANC and the government met for a second day at a secret venue for constitutional talks, while the radical Pan Africanist Congress Youth League threatened to kill whites if PAC leaders were arrested in connection with the murder of four whites in a terrorist attack at a golf club last weekend.

The PAC's armed wing has claimed responsibility for the attack.

Tensions high in Indian temple conflict

By Stefan Wagstyl in New Delhi

TENSIONS were running high in the Indian holy town of Ayodhya in the state of Uttar Pradesh last night as tens of thousands of Hindu militants converged with the aim of building a temple on a controversial site next to a mosque.

The possibility of a renewed outbreak of communal clashes between Hindus and Moslems over the temple is putting growing pressure on New Delhi to impose direct rule on Uttar Pradesh.

About 12,000 paramilitary police are guarding the site to prevent damage to the mosque and further bloodshed on an issue which has claimed 2,000 lives across India in the last three years.

Mr Arjun Singh, the human resources minister, told parliament yesterday the situation was "very dangerous". Referring to the separation of India and Pakistan in 1947, he said: "We do not want a second partition of the country."

Hindu fundamentalists have long voiced claims to land in Ayodhya and other sacred sites. But their demands have been transformed in the last three years by the political rise of the Hindu Bharatiya Janata party, which has grown into the largest opposition party by promoting Hindu militancy.

BJP leaders have been playing a dangerous game, whipping up national enthusiasm for the temple, whilst trying to keep in check the passions of extremists, some of whom believe India's Moslems should be expelled to Pakistan.

The government is relying on a Supreme Court order issued this week instructing the state government of Uttar Pradesh to prevent construction work.

But Uttar Pradesh is led by the BJP, so Mr P V Narasimha Rao, the prime minister, may be unable to rely on the state carrying out the Supreme Court's bidding. This would force him to impose central rule, a step he is loathe to take.

Bombay stocks scandal claims Citibank chief

Citibank of the US has transferred the chief of its Indian investment banking operations following intense criticism of the bank's role in the Rs35bn (£816m) securities market scandal, writes Shiraz Sidhva in New Delhi.

Mr A S Thiyagarajan's departure for New York means the four foreign banks most active in the securities market have now lost their top officials since the scandal erupted in April.

All four – Citibank, US-owned Bank of America, Australia's ANZ Grindlays and Standard Chartered Bank of the UK – were criticised by the Reserve Bank of India, the central bank, and by a parliamentary committee investigating the scandal.

Meanwhile, Mr Bob Edgar, ANZ Grindlays' chief executive for India, is leaving this week after two years in India.

The Central Bureau of Investigation yesterday arrested Mr Binoy Jacob, a non-resident businessman, for his alleged involvement in the receipt of illegal commission payments from foreign companies.

Uproar over Pakistan atom bomb report

India yesterday reacted strongly to a US television report that Pakisan built seven nuclear bombs and considered using them during a flare-up in border tensions in 1990, writes Stefan Wagstyl in New Delhi.

Even though Pakistan denied the allegations, the report based on CIA sources, caused uproar in the Indian parliament.

The report could escalate tensions between the two countries which are already running high after two Pakistanis were shot dead in October by Indian security forces in the troubled Indian province of Punjab. India has said the two were agents aiding local terrorists – a charge Pakistan has denied.

The report said Pakistan prepared seven atom bombs, each the size of the weapon which destroyed Hiroshima, and considered using them in the event of a conventional Indian attack.

Simon Holberton on the fallout from Beijing's row with colony's governor

HK falls to China's market force

THERE is one word, and only one, that has been the force behind the Hong Kong stock market this year: China.

The promise of the riches expected to flow from China's embrace of market economics pushed the Heng Seng index to an all-time high of 6,447.11 three weeks ago.

The fear of China's retribution for what it, and many in Hong Kong, see as Governor Chris Patten's impudence in promoting democracy, is what brought the index down to yesterday's close of 4,978.12 – a fall of 8 per cent on the day and nearly 23 per cent down from the peak on November 12.

For a brief period last month, when the market kept on rising in the face of daily, tougher rhetoric from China, it was possible to ask the question: had the Hong Kong market been fundamentally re-rated because economics, not politics, had come to matter more?

Attractive as that was to contemplate, the events of the past two weeks have shown that Hong Kong is as "political" a market, subject to the tenor of relations between Britain and China, as ever it was.

So the questions being asked in Hong Kong's financial circles now are: Where is the bottom? And what are the implications for Hong Kong's economy?

What has unsettled the market most this week is that no one knows the boundaries of the conflict in which Britain and China are now locked.

History may be a guide. Past crises – such as the October 1987 stock market crash, and the more localised reaction to the June 4 1989 Tiananmen massacre – suggest that the market reaches bottom when its prospective price/earnings ratio as a whole reaches 6 to 7 times future earnings.

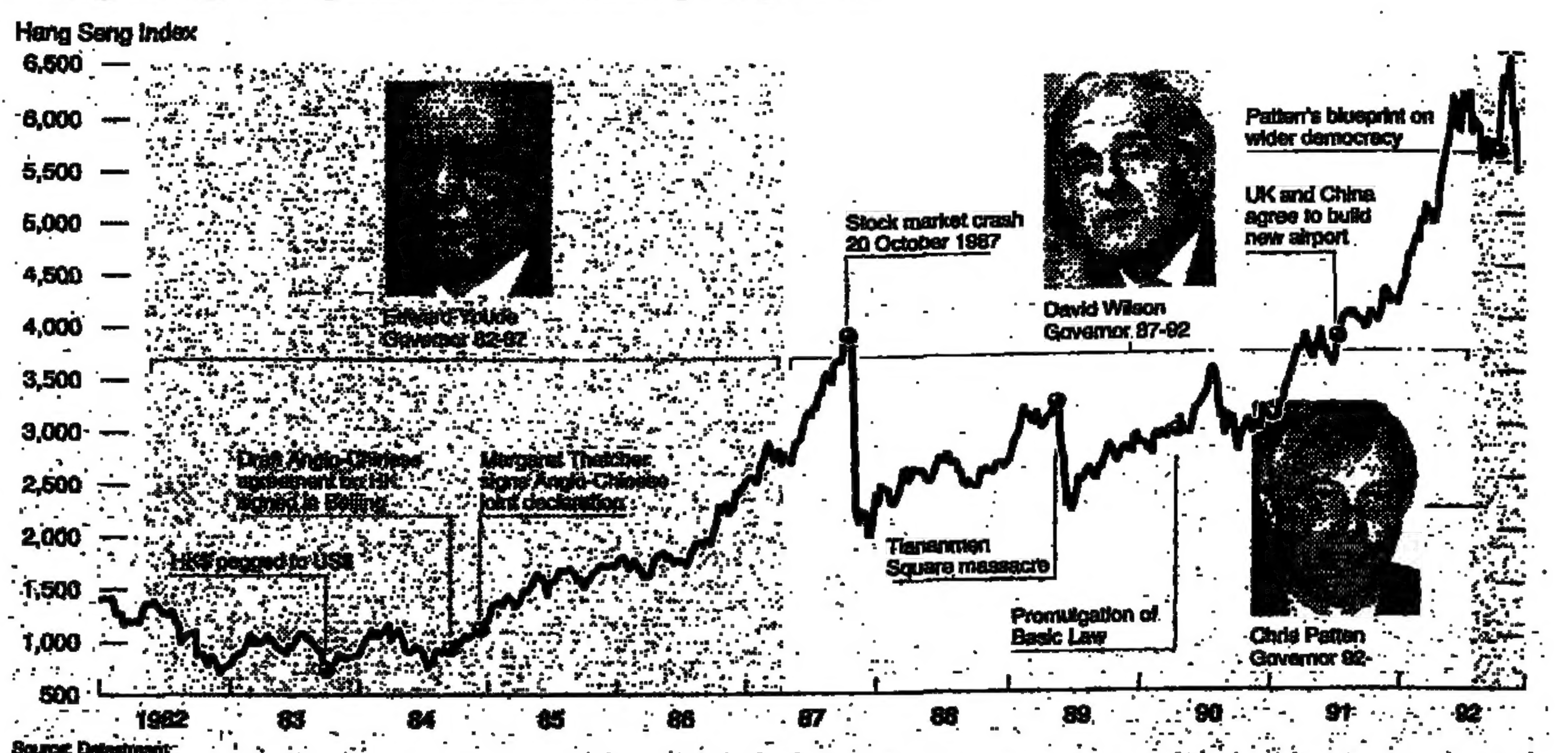
According to Mr Archie Hart, head of research at Crosby Securities, a local brokerage, that would, in the worst case scenario, put the Heng Seng index somewhere between 4,000 and 4,500, assuming 20 per cent earnings next year – a fall of a further 10 to 20 per cent on yesterday's close. "That's the real base if all hell breaks loose," he said.

Investors who bought Hong Kong equities at the beginning of the year were, by yesterday's close, still more than 15 per cent ahead. If the political atmosphere enveloping the market continues to deteriorate then many of them may decide to take their profits.

Today the market may well have judged that all hell had broken loose. Late yesterday China again raised the issue of future adherence to the 1984 Sino-British Joint Declaration – the cornerstone of Hong Kong's security.

In spite of the palpable uncertainty in Hong Kong, not a few analysts were pointing out the artificiality of it all.

Hong Kong: ten years of turbulent prosperity



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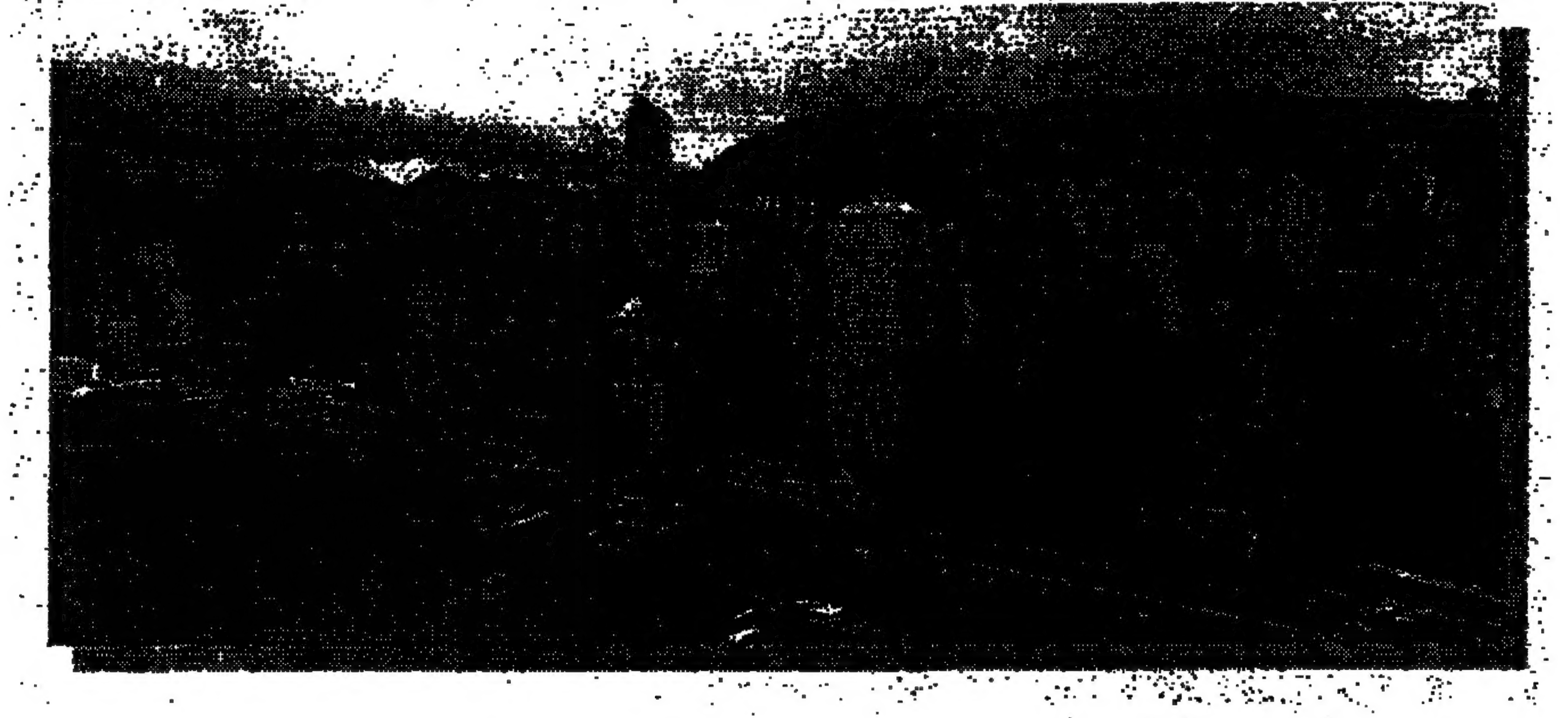

'For those who buy now, the rewards in 12 months will be great, but no one wants to catch a falling knife'

Nothing, they said, has changed the fundamentals. Corporate earnings growth this year is expected to be between 20 and 25 per cent; the market is working on 20 per cent for next year. The reason is simple: the Hong Kong economy is expected to grow by 6 per cent in real terms next year, up from 5 per cent this year.

China – that word again – is the main reason for this bullish outlook. It is expected to grow by more than 10 per cent in 1993. Guangdong, the province bordering Hong Kong and the most dynamic economy in China, may grow by 12 per cent or more.

As Mrs Janice Wallace, head of research at Goldman Sachs, pointed out: "The fundamentals are still very strong. Unlike June 1989, corporate earnings are on an upswing and GDP growth is accelerating. Also, this is a political dispute; there are no tanks in the street."

She is not alone in expecting a surge in share prices when the political dispute is resolved. Mr Hart said Crosby is advising long-term funds to stay in the market, although short-term performance-sensitive funds are being encouraged to quit Hong Kong for Malaysia and Thailand.

Mrs Wallace said: "I still believe that, 12 months out for those who buy now, the rewards will be great." However, "no one wants to catch a falling knife".

But the real risk to the market and business is a protracted brawl between Britain and China. No one has yet downgraded earnings or economic growth forecasts on the basis of the current crisis, but if it continues for long they will.

The market is already pointing to potential problems in the industrials and retail sectors. Both have fallen faster relative to the overall decline in prices this week. The reason, analysts say, is that people will be less likely to buy flats, consumer goods and cars if the row is maintained at its current level for much longer.

The property sector in Hong Kong was worst hit in 1982-83 when Britain and China went through a similar trial of strength and the markets took the strain.

The difference now, analysts say, is that the financial strength of the property companies could not be better.

In the early 1980s these companies were highly geared and had to dump property to raise cash. This time around, property companies have virtually no debt and are well placed to weather a fall-off in transactions.

Patten urged to adopt less abrasive style

HONG KONG'S small group of independent legislators, whose votes will decide the outcome of Governor Chris Patten's proposals for more democracy in the colony, are dismayed at the breakdown in relations between Britain and China.

Yesterday's statement by the Chinese Foreign Ministry questioning the future of the 1984 Sino-British Joint Declaration, shocked local politicians.

Mr Simon Ip, who represents the legal profession in a specially allocated seat on the Legislative Council, said China's tactics "were aimed at rattling the Hong Kong people" so they would turn against Mr Patten's proposals.

"I have not heard an argument why it is that Mr Patten's proposals are not in accord with the Joint Declaration or the Basic Law," he said.

Professor Andrew Wong, an elected but independent legislator who served on Lord Wilson's Executive Council, said the people of Hong Kong felt intimidated by China's actions and feared an economic slump.

"I think the people are now willing to yield to China," he said. "But if China overplays its hand there could be a contrary reaction and the people may rally behind Mr Patten."

Mr Ip concurred. "The longer China turns the screw the more likely it is that the people will bend, like it or not."

Both men urged Britain and China to return to the negotiating table, but said in the current circumstances the prospects of that happening were bleak. Neither politician, however, thought it would be a good idea for Mr Patten to back down.

"If Mr Patten withdraws he will be delivering the rule of Hong Kong to China," said Prof Wong. "He cannot do that."

Mr Ip said Hong Kong could just not "capitulate". But he urged the governor to change the way he presented his views. He said Mr Patten should adopt a softer attitude and "give some indication that he is prepared to repair the damage" that had been caused.

He said the "word going round" was that China was not prepared to deal with Mr Patten. "The question is whether they will be prepared to deal with Mr Major," he said.

Prof Wong said the governor should be less abrasive. "They Chinese regard him as being arrogant," he said.

He said a possible way out of the difficulties would be if Legco could agree a compromise package on political reform.

Chancellor Helmut Kohl of Germany said yesterday he welcomed economic liberalisation in China but hoped it would be matched by political reform, Reuter reports from Bonn.

Speaking at a reception for the Bonn diplomatic corps, he said Germany wanted to expand its relations with China. "I welcome the recent confirmation of the Chinese leadership's policy of further liberalising the economy and opening the country to the outside world," Mr Kohl said.

"We would like this road to lead to internal political reform as well."

'If we have to suffer, it is preferable to being ruled by the hypocritical British'

THE anxiety on Hong Kong's streets yesterday was visible. Shaking heads in disbelief, people lingered by bank screens watching the falling stock market.

The market may have seen the biggest one-day fall since the June 1989 Tiananmen killings, but the talk of the town was of politics, perfidious Albion and the strange ways of China.

Hong Kong may be a British colony but it is emphatically a Chinese city. The result of Governor Chris Patten's proposals has been to divide Hong Kong society. That division has produced strong reactions among a people adverse to venting their anger, especially in public.

At what would normally have been a sedate business lunch yesterday, one senior Chinese executive of a large Hong Kong property company lost control, to general astonishment. He said the people of Hong Kong had taken so much flak from Britain and China over the past 14 years. "What does he think he is doing now with so little time to go? China is changing; it has embraced the market economy; it wants its people to get rich; Hong Kong can play a key role in that. All we want is a quiet life."

On the streets of Central, the main business, retail and tourist district on Hong Kong island, Hong Kong Chinese vented their dismay and anger, but not all oppose the governor's stand.

'He has more guts than the other governors before him. I hope he can stand firm'

An assistant hotel manager declared himself for Mr Patten. "I support Patten's proposals because I think Hong Kong people should have the freedom to decide what they want. That there are more protests now shows people are beginning to know better what sort of society Hong Kong is and recognise what their needs are.

"I think business people might not want changes because they do not want what they are enjoying to be taken away. They are considering their own interests."

Ms Ella Kwok, a nurse, is also a strong supporter of the governor. An investor in the stock market, who has seen more than a fifth of the value of her shares wiped out in three weeks, she believes China is to blame.

"They should not say things like the statements made concerning the container terminal and the airport contract. I think the governor is doing everything for Hong Kong people's long-term interests.

"If one side has to back down, I hope it is not the governor.

"He has more guts than the other governors before him. I hope he can stand firm."

The worsening relations between Britain and China has stirred anti-British sentiment within Hong Kong – something never far from the surface. Among some people, China's staunch opposition to the governor is seen as repaying the indignity of colonialism.

"I think China is right," said one secretary. "The British have lived well in Hong Kong for a long time and they need to be put in their place."

'The British have lived well in Hong Kong for a long time. They need to be put in their place'

One hears echoes of these sentiments on the streets. Ms Chow, an office administrator, is in no doubt about Mr Patten.

"I do not like Patten or what he is doing. I think he is making Hong Kong a mess," she said. "He is doing everything for himself. It is naive to believe that Britain has Hong Kong people's interest at heart; they enjoy the notion of doling out democracy. If we have to suffer, it is preferable to being ruled by the hypocritical British."

A civil servant who gave his name as Mr Ho said the governor had gone too far and should back down. "When he deals with China, he should go one step at a time," he said. "Hong Kong is still not used to his way of doing things. I do not think China wants to do this but is forced to."

Throughout the day, however, the overwhelming call was for Britain and China to sit down and talk. This view was given expression by a housewife who said: "The two sides should sit down calmly and talk about what is good for Hong Kong, what is good for its economy. They should look at the agreements again or find a middle way to solve the problem."

She also made the saddest observation on the fall-out from the controversy. "I have lost confidence that Hong Kong will change for the better."

Additional reporting by Karen Tang.

NEWS: THE AMERICAS

Backing for principle of universal coverage

US health insurers endorse reform

By George Graham in Washington

IN A significant reversal yesterday the Health Insurance Association of America, representing 270 commercial insurance companies, endorsed the principle of universal health coverage, coupled with cost controls and a limit to the tax-free status of health care benefits.

The move serves to confirm that the ice is finally breaking in efforts to reform the US health-care system, with some of the most powerful groups in the health industry beginning to accept solutions that go directly against their own interests.

Although health-care reform was a central plank this year in the campaign of President-elect Bill Clinton, many observers believed fundamental reforms would be obstructed by the conflicting claims of health insurers, doctors, businesses, local governments and those who are left out of the current system.

Most US citizens have health insurance provided by their employer, tax deductible for employers and excluded from taxation for the employee.

A meeting organised by the National Governors Association and involving local government and business representatives this week endorsed limiting this tax-free status.

Critics argue that the tax exemption had helped allow inflation in the medical industry, because neither employer nor employee is fully sensitised to the costs of their health care. At the same time, the estimated $25bn (£16bn) that could be raised by taxing health care benefits above a certain basic level would help to pay for coverage of those currently left out.

Businesses have in general remained firmly opposed to limiting the employer's deduction, but Mr Thomas Pyle, a director of the American Business Conference and a participant in the meeting, reluctantly concurred.

"I don't think any business group is enthusiastic about capping deductibility and I think that most groups would prefer to see a reduction in the amount that's exempt from taxation rather than capping deductibility. But the bottom line is we end up feeling comfortable with this as a step towards pushing down on costs in health care," he said.

Yesterday's HIAA policy statement also favoured limiting the tax exclusion on health care benefits for employees, and backed greater government involvement in overseeing the prices charged by doctors and hospitals.

These new proposals may not fit exactly with Mr Clinton's plans for reform, many of whose details remain unclear but health-care specialists believe there are now clear signs of a reform consensus beginning to coalesce.

Clinton urged to boost national savings rate

By Michael Prowse in Washington

THE incoming Clinton administration should focus on long-run economic challenges and make a higher national savings rate a central policy goal, according to a report from the Committee for Economic Development, a business-led research group.

The report* urges the US to aim at a national savings rate of about 8 per cent of national income, roughly in line with US performance before the 1980s and with the current performance of other rich industrial countries.

The tone of the report, the first comprehensive economic plan issued by a business group since the presidential election, indicates a disillusionment among industrialists with "quick fix" policies such as tax cuts.

The committee believes a sharp decline in national savings in the past decade, to about 2.5 per cent of national income, has been instrumental in poor US productivity growth and stagnant living standards for many families.

It says cuts in the federal budget deficit – which represents negative saving by the public sector – should be the main route to higher saving and recommends deficit reduction averaging $50bn (£33bn) a year for the next five years, with an ultimate goal of a small surplus within a decade.

Measures to cut the deficit should include curbs on health care spending, stiffer taxation of federal pension benefits and bigger cuts in defence spending. The report also recognises the need for tax increases, but favours levies that reduce personal consumption rather than saving and investment.

It says an investment tax credit could play a useful role in stimulating productivity but argues against the income tax cuts favoured by Mr Clinton in the election campaign. It advocates selective investments in education, infrastructure and science and technology but warns against a rapid expansion of existing programmes.

**Restoring Prosperity: Budget Choice for Economic Growth: Committee for Economic Development 2000 L Street N W Washington DC 20036.*

Paraguay's unimagined renaissance

Even the generals cannot stop the process they started, writes John Barham

DICTATORS and generals have ruled Paraguay for all its 181 years as an independent nation. A general may still rule Paraguay today, but an extraordinary renaissance is under way. A free press, an independent judiciary, reasonably fair elections and a new constitution are bringing Paraguayans unimagined liberties.

So great are these freedoms and the enthusiasm of the Paraguayan media in raking up the disgraceful past of top government figures, that the 56-year hegemony of the army and the ruling Colorado party is now at risk.

To his fury, President Andres Rodriguez, the general who toppled General Alfredo Stroessner in a 1989 military coup, has been barred from standing for re-election under Paraguay's new constitution.

Promises by Gen Rodriguez – himself closely identified with the Stroessner regime that lasted 35 years – to introduce democratic reforms were met with disbelief at first. However, he took to heart warnings from Washington, Brasilia and Buenos Aires, that they would not tolerate any more dictatorship.

The army and the Asuncion civilian élite assumed, though, that they would not be held responsible for misdeeds committed under Gen Stroessner. However, in August the opposition newspaper ABC Color published reports that senior army officers, including the army chief of staff, were involved in trafficking in stolen cars.

ABC Color's reports were followed by more corruption stories and the indictment of senior army and police officers. Says Mr Edwin Britez, ABC Color's political editor: "The military were still a taboo subject then. They had a blank cheque from society that was thought necessary during the transition to a new government."

The transition to democracy will only be complete after Paraguay holds presidential elections in May 1993 and Gen Rodriguez hands over power three months later. The Colorados are holding primary elections to choose a presidential candidate, but bitter infighting among the candidates, plus daily revelations of corruption, now mean that an opposition figure could win a presidential election for the first time in Paraguay's history.

Mr Domingo Laino, a courageous if eccentric opponent of 'Stroessnerismo' and candidate for the Authentic Liberal Radical party, stands to gain most from the disarray.

Even Gen Rodriguez is unable to halt a liberalisation process he started, even if he never imagined the consequences it would bring.

However, there is no sign of long overdue land reform, a few wealthy and powerful businessmen retain great influence, corruption and smuggling are widespread and the police are still notoriously thuggish. Washington is concerned over Paraguay's role as a corridor for cocaine shipments and money laundering.

Although the transition to democracy is proceeding reasonably well, the transition to a market-based economy is less smooth. True, the government's technocratic economic team has opened and deregulated the economy – and delivered South America's lowest annual inflation rate of 16 per cent.

Rodriguez: furious

The problem is that a business class more used to bootlegging contraband to Argentina and Brazil or living off financial speculation and cosy government-supported cartels is not ready to cope with economic reform. In March 1991 Paraguay, together with Argentina, Brazil and Uruguay, formed Mercosur, a nascent common market that is already putting local businesses under pressure.

Mr Jose Abreu, a member of the Union Industrial Paraguaya, which represents manufacturers, admits that "the traditional [business] mentality that does not want change is a majority. Paraguay's strong businessmen got rich with the government, not the market."

However, he consoles himself that "traditional people are older, they are dying out. Change will come, it's just a question of speed."

But sandwiched between the supremely efficient agricultural producer Argentina and the stumbling giant Brazil, Paraguay's outlook is, at best, mixed. This became brutally clear in October when Argentina retaliated against Brazilian exports with a 10 per cent tax on all its imports, hitting Paraguay in the crossfire.

As a mainly agricultural economy with an exploding birth rate, Paraguay desperately needs growth. About 50,000 teenagers enter the labour market every year. Investment equivalent to US$1bn a year is needed to provide jobs for them. However, the economy is stagnant and investment low.

Paraguayans are realising that their staple exports of cotton, soyabeans and "re-exports" of contraband consumer goods to neighbouring countries are no recipe for sustained, balanced development. The trouble is that they have yet to find a new strategy to pay their way in the world.

Private sector to help fight US TB epidemic

By Karen Zagor in New York

AS a tuberculosis epidemic spreads in the US, the New York Public Health Research Institute yesterday announced an unusual collaboration between the public and private sectors to research the most deadly strain of the disease, multiple drug resistant TB.

New cases of TB, which seemed close to eradication in the US in the mid-1970s, increased more than 40 per cent between 1985 and 1990, and the rate of growth has shown no signs of slowing. Factors contributing to TB's spread include drug addiction, homelessness, overcrowded prisons with antiquated ventilation systems and the susceptibility of HIV-positive patients to the disease.

The new centre, devoted to TB research, will concentrate on this strain, looking at DNA fingerprinting, DNA patterns and drug resistance. It will also test new drugs and faster diagnostic methods and will provide free testing and other service.

Participating companies include Pfizer, Hoffmann-La Roche and Lederle Laboratories.

Brazil steel sale in balance

By Christina Lamb in Rio de Janeiro

BRAZIL'S President Itamar Franco began two days of meetings yesterday to decide whether the country's largest privatisation should go ahead later this month.

The National Steel Company (CSN) is scheduled to be sold off on December 22 at a minimum price of $1.6bn (£1.05bn) but Mr Franco has expressed considerable doubts about the sale, and about the whole privatisation process.

Brazil's stock markets fell yesterday on fears of a delay. Last month Mr Franco cancelled the sale of Ultrafertil, a fertiliser company, just 90 minutes before the auction was due to start, causing Mr Marcos Vianna, vice-president of the National Development Bank which oversees the programme, to resign in anger.

The CSN auction could attract sizeable foreign investment. Among those interested are the Brazilian construction company Andrade Gutierrez and a German consortium involving Thyssen, Germany's biggest steelmaker, and Ferrostatal, a trading company.

The sale is sensitive because of CSN's emotional significance as a symbol of Brazil's economic development.

Mr Franco's talks will include Mr Paulino Cicero, mines and energy minister and, like the president, a past opponent of privatisation, Mr Roberto Procopio, CSN's president who strongly favours the sale, and Mr Jose de Castro, Mr Franco's legal adviser who recommended the Ultrafertil cancellation.

Analysts believe the CSN sale may be put off until March when Mr Franco is expected to introduce rules stipulating that 30 per cent of any bids must be in cash. Currently most purchases have been made using "rotten currencies" – domestic debt swapped at par – with less than 1 per cent of the $3bn raised so far being in cash.

Accord near with nine small exporting countries

EC hoping for oilseeds deals soon

By Frances Williams in Geneva

THE EC hopes to reach accords on oilseeds with nine smaller exporting countries by mid-December, following settlement of its dispute with the US last month, officials said yesterday. The move, announced at the annual meeting of the General Agreement on Tariffs and Trade in Geneva, was welcomed by the countries involved.

The US estimates that the nine, which include Brazil, Argentina, Canada, Poland and Pakistan, may have lost trade worth $1bn (£658m) a year because of the EC's oilseeds subsidy regime, in addition to the $1bn lost by American farmers.

Negotiations under Gatt auspices were broken off last September when the US and others rejected as inadequate EC offers of compensation for trade losses. The US/EC deal, the legal details of which have yet to be settled, according to US officials, does not directly cover other oilseeds suppliers.

Meanwhile, trade officials from the 108 countries taking part in the Uruguay Round of global trade talks are gearing up for an intensive schedule of bilateral and multilateral meetings designed to produce a final package of agreements by the end of the year.

There is a widespread belief that Japan and South Korea will not hold out against liberalisation of rice imports, which could otherwise prove a big stumbling block now that the US and EC have largely settled their farm trade differences.

European suggestions that US "section 301" legislation for unilateral trade action could provoke a confrontation were yesterday played down. "We are willing to enter into an agreement that would commit us all to an effective and binding set of multilateral rules with multilateral enforcement," said Mr Rufus Yerxa, US Gatt ambassador.

Mr Andras Szepesi, Hungary's Gatt ambassador, is to be chairman of Gatt's governing council next year, the first official from a former Communist country to hold such an influential position in Gatt.

Ricoh sues Honeywell over sensor patent

By Steven Butler in Tokyo

RICOH, the Japanese office equipment and camera maker, said yesterday it had filed a patent infringement suit against Honeywell, the US technology company that has aggressively sought to enforce its own patents in Japan for autofocus cameras.

The suit is the latest in a series of trans-Pacific disputes over intellectual property rights in which, more often than not, Japanese companies have been accused of infringing on US patents. Increasingly, however, Japanese companies are striking back.

On the same day that Ricoh said it had filed suit in New Jersey alleging that Honeywell had infringed a patent on semiconductor sensors, it said it had settled out of court with Honeywell in the dispute over autofocus cameras.

Ricoh denied infringing on Honeywell's patents, but it said a reasonable settlement was preferable to protracted and costly litigation. Although it did not disclose the terms of the settlement, it said it would have no material affect on the company's financial condition or operations.

Ricoh claims Honeywell sensors infringe a Ricoh patent for a semiconductor device that enables high-precision and high-speed measurement of air-flows.

Agreement on fighting music pirates

By Michiyo Nakamoto

THE International Federation of the Phonographic Industry, which represents record companies worldwide, and Philips, the Dutch consumer electronics group, have reached an agreement on a method to combat music piracy using digital technology.

The agreement between the federation and the inventor of the compact disc is expected to help stem the loss of revenue to the recording industry resulting from unauthorised copies of recordings on CDs, which the IFPI estimates at 25m units worth up to $250m in 1992.

Under the terms of the memorandum of understanding, Philips will introduce codes into the manufacturing process that will make it possible to identify the maker of a CD or Digital Compact Cassette, as well as the location and equipment used. Philips is the licensor of CD and DCC, a tape launched in autumn by the Dutch group.

For licensees of DCC, use of the identification codes will be mandatory.

The primary sources of unauthorised CDs are eastern Europe, South Korea and Taiwan.

The concern over CD piracy comes when growth in the market has slowed in Europe and the US.

Japanese warn on Russian ventures

By Robert Thomson in Tokyo

A LEADING Japanese regional banker yesterday said ventures in Russia had failed to materialise because foreign companies were uncertain of the status of property they need to acquire.

Mr Ryutaro Ohmori, president of the Niigata Chuo Bank, which has formed a Russian investment association in north-western Japan, said foreign investment interest in Russia would remain weak until banking and property management regulations were overhauled.

He said investors had lost confidence in the Russian banking system, and were confused by the regional and central governments' competing claims to authority over investment approval. In an attempt to improve banking ties, Niigata Chuo and several other banks in the area have trained Russian bank staff.

Banks and trading companies in the Niigata region had hoped the Russian far east would be a prime site for resource and services investment, but after many trips to the region, including Mr Ohmori's nine visits in the past two years, enthusiasm for joint ventures has begun to wane.

JAPANESE FOREIGN DIRECT INVESTMENT

Fiscal year	$bn
1985	12.2
1986	22.3
1987	33.3
1988	47.0
1989	67.5
1990	56.9
1991	41.6

Source: Ministry of Finance.

DIRECT MANUFACTURING INVESTMENT

Fiscal year	$bn
1985	2.4
1986	3.8
1987	7.8
1988	13.8
1989	16.3
1990	15.5
1991	12.3

Source: Ministry of Finance.

Trade between Japan and Russian will fall about 60 per cent this year, according to trading house officials who say they are reluctant to deal with Russian clients unless certain of receiving payment for goods exported.

An official responsible for Russian trade at a Tokyo-based trading house said confidence had also been undermined by the introduction of a new tariff system in July. He said the system was applied unevenly.

Turkey gets central Asia on the phone

John Murray Brown on how Ankara has plugged ex-Soviet republics into its network

AN ambitious project linking Turkey's telephone network with that of the five republics of central Asia was formally inaugurated this week with a visit to the region by Yasar Topçu, the Turkish communications minister.

Telecommunications is proving the industrial frontiersman in Turkey's efforts to forge ties with its cousins to the east. Under a turnkey arrangement, the PTT, Turkey's state-owned telecom monopoly is supplying public exchanges with 2,500-line capacity to each country – Kazakhstan, Turkmenistan, Uzbekistan, Kyrgyzstan and Tajikistan.

Through earth stations also supplied by the PTT, the five existing networks will be linked via the Intelsat satellite to the Turkish gateway exchange and the outside world. The PTT has contracted Netaş, a Turkish subsidiary of Northern Telecom of Canada, together with Teletaş, part owned by Alcatel of France, to deliver the switching equipment.

The deal is a straight donation at a cost of $25m – a considerable sum given Turkey's budget problems.

In the long run the PTT will comfortably recover the cost in transit revenues.

As the republics look to upgrade their infrastructure, bigger gains should be had by Turkish suppliers.

Turkish companies already have considerable experience in the former Soviet Union, on the back of a $300m-a-year gas protocol under which Turkey receives gas from former Soviet republics in exchange for Turkish goods and services.

As a location for foreign joint ventures, Turkey offers cheap labour costs. Moreover Turkey and the central Asian republics speak broadly the same language.

Turkish telecommunications has long enjoyed priority status in a country where the president used to boast there was a telephone in every village.

Between 1986 and 1991 the number of lines installed increased by 163 per cent, faster than anywhere.

As growth in Turkey's domestic phone market slows with the PTT cutting investment, sales to the republics will provide welcome revenues.

"We've learned our lesson, not to be too reliant on a single customer," says Mr Tanju Argun, Netaş president. In 1988 the company recorded losses resulting in large scale lay-offs. Today the corporate structure is much more robust. Thanks in large part to the former Soviet market, exports now account for about 10 per cent of turnover, which in 1991 is estimated at around $230m. Mr Argun's target is to boost exports to a third of total sales.

Netaş has long been testing the waters. In 1986 its engineers were working with the Leningrad Institute of Technology to create a signalling system for the southern republics.

"We were present in Moscow. We'd had relations with the Ministry of Communications for a long time. But we were reluctant to go to the republics independently," says Mr Argun.

The demise of the Soviet Union accelerated the company's plans. In October last year the company connected the Northern Telecom-designed DMS switch in Azerbaijan, the first foreign digital switch to be installed in the former Soviet Union. Mr Argun was in Baku again earlier this month to see the installation of a third digital exchange, with cables being laid along the city's underground. Netaş has also opened a DMS in Kazakhstan.

The export effort has been spurred by substantial investment in home-grown research and development. Netaş for example, devotes between 6-10 per cent of sales revenues to R&D. The company earned $2.7m exporting software to both Northern Telecom and Bell Northern Research. It also contributed to London's Mercury gateway system.

Netaş has joint ventures in Azerbaijan and Kazakhstan to manufacture its DRX-4 digital switch used for exchanges in rural areas, which the company developed in its Istanbul laboratories.

Netaş is excited by the prospects for this product which it feels is ideally suited to the ex-Soviet market. "It has been designed by customer input – it is not a technology driven product," says Mr Argun.

The DRX comprises a 512-line cabinet structure easily assembled in a small office, and, unlike many systems, it will function in extremes of temperature. Netaş has already delivered test equipment and started construction work near Baku. Ultel, its 51 per cent owned venture in Azerbaijan, has produced 150,000 handsets, and expects to be selling the switch soon.

Finance remains a bigger headache. Payment for the Azerbaijan deal involved a complex telephone-sets-for-oil countertrade. Mr Argun hopes also to be able to tap the $1bn line of credit extended to the republics by Turkey's Eximbank.

Turkey is under growing pressure to cancel a power supply deal recently agreed with neighbouring Armenia after criticism from both Azerbaijan, Ankara's ally in the Caucasus, and Turkish opposition parties, writes John Murray Brown.

The $16.5m (£10.8m) deal signed two weeks ago in Ankara envisages the transmission of Turkish power to Armenia through winter.

But the contract has angered Azerbaijan, which has been involved in a four-year conflict over the Armenian enclave of Nagorno-Karabakh. Turkey's main opposition party, the Motherland party (Anap), yesterday threatened a parliamentary vote to censure the government over the contract, which it claims is jeopardising Turkey's solidarity with the Turkic states of the Caucasus and central Asia.

Ankara fears that, without the power supply, Armenia might restart its nuclear plant close to the Turkish border. The deal, under which Turkey is to supply Armenia with 300m kW/hrs of energy from December to April, is also part of efforts to restore full political relations and resolve a border dispute.

Turkey has initiated several regional power projects in an attempt to win over its troublesome neighbours – despite projections by the Turkish electricity utility Tek of energy shortfalls by 1994.

Labour attacks Major over 17,700 job losses

By Ivor Owen, Roland Rudd and David White

THE OPPOSITION Labour Party yesterday launched a strong attack on the government's failure to stem the rise in unemployment as a further round of 17,700 job losses were announced in the UK economy.

Mr John Smith, the Labour leader, described 16,200 job losses announced by the Post Office as "staggering." He said unemployment was a "cancer eating at the fabric of British society," and added that Labour would stage a Commons debate on the issue next Tuesday.

Other job cuts announced yesterday were 1,300 at Royal Ordnance, the armaments subsidiary of British Aerospace – the largest reduction since the company was privatised in 1987 – and 200 at Lloyd's of London, the insurance market.

In addition, Ford, the US car maker, is expected to announce redundancies of about 10 per cent of the 97,400-strong European automotive workforce.

Mr John Major, the prime minister, welcomed the fact that the Post Office planned to spread its job cuts over five years and to seek to implement them on a voluntary basis.

He insisted that long term sustainable jobs could only be created by the policies already put in place by the government to secure long term and sustainable economic growth.

To cheers, Mr Smith called on the prime minister to deal with the reality of the situation – 52 unemployed people to every job vacancy in the west midlands and 72 in London.

Mr Major retorted that if Mr Smith was really concerned he should drop Labour's commitment to a payroll tax, the social chapter of the Maastricht, and the minimum wage.

The Royal Ordnance cuts, reflecting the general downturn in the defence business, are to be made across 13 sites in England, Scotland and Wales and include management staff. Royal Ordnance said it had to reduce its cost base to compete both in the UK and overseas.

The job cuts at Lloyd's are part of plans to reduce the organisation's budget by 18.4 per cent to £117.9m in 1993 compared with £144.5m in 1992. Staffing will fall from 2,200 to 1,990 over the next 12 months.

The move to slim down the Post Office comes only weeks before the government is expected to announce its conclusion of the review of the Post Office's structure which could lead to privatisation.

Mr Bill Cockburn, the Post Office's recently appointed chief executive, denied the planned job losses had anything to do with the government's future plans for the corporation.

The Post Office said it intended to reduce its 200,000 strong workforce by voluntary measures. A spokesman said 7,000 jobs losses last year were achieved with the agreement of the workforce.

House of Lords ruling may affect Asil Nadir case

By John Mason, Law Courts Correspondent

A LEGAL loophole preventing theft charges being brought in some cases of alleged fraud was closed by the House of Lords yesterday.

By a majority of four to one, five law lords allowed an appeal by the Director of Public Prosecutions against a Court of Appeal decision to quash the conviction for theft of Mr Edwin Gomez, a shop manager.

The law lords ruling is seen as having widespread implications for the bringing of theft charges in cases of alleged white-collar crime.

The decision may have implications for the prosecution brought by the Serious Fraud Office against Mr Asil Nadir, the former chairman of Polly Peck International.

Last June a High Court judge dismissed 46 charges of theft involving some £119.5m against Mr Nadir after his counsel had argued there was no evidence of appropriation of funds in connection with transfers by Mr Nadir from PPI's bank to the account of a wholly owned subsidiary, Unipac, or the Midland International account of the Industrial Bank of Kibris, a bank in Northern Cyprus owned by Mr Nadir.

The SFO would make no comment yesterday about Mr Nadir's case in the light of the Lords' decision but is understood to be considering the detail of the judgment.

Following yesterday's ruling, theft charges could now be more easily brought against dishonest company directors who persuade fellow directors to agree to the transfer of assets not knowing the improper purpose of the exercise.

Mr Gomez was originally convicted of the theft of electrical goods after persuading his manager to accept cheques as payment from a Mr Jit Ballay which he, Mr Gomez, knew to be stolen.

Bombs explode in Manchester city centre injuring 64

By Ian Hamilton Fazey, Northern Correspondent

TWO BOMBS exploded in Manchester yesterday, injuring 64 people and paralysing the city centre all day.

The area was closed to traffic and offices were evacuated while police searched for two more devices and blew up 10 suspect packages with controlled explosions. No more bombs were found.

All the suspect packages turned out to be items abandoned by people during the evacuation.

Damage to buildings was light but extensive, mainly broken windows. The injured were all cut by flying glass.

The first bomb went off outside government tax offices in Parsonage Gardens off Deansgate at 8.40am as people were arriving for work.

Seven minutes later a man with an Irish accent telephoned a coded warning to the Samaritans, saying four bombs had been planted. A similar warning was given to the BBC soon afterwards.

The second bomb exploded in Cateaton Street near Manchester Cathedral at 10.07am as police were clearing the adjacent Cathedral Street, where the telephone caller had said the bomb was hidden.

Evacuees were caught in the second blast as they hurried to safety under police direction. They included Marks and Spencer food hall. One witness said they were felled by shards of glass as they carried trays of sandwiches out of their building.

Commander David Tucker, national police anti-terrorism co-ordinator, said he had no doubt from the methods used the IRA was responsible.

The bombs were each of about 2lbs of high explosive, hidden in shrubbery. It was too early to say if they were of Semtex, but they were different from the fertiliser-based, home-made explosives that have been used in recent London incidents.

Mr Jim Paterson, assistant chief constable of Greater Manchester Police, said: "I think it is absolutely deplorable to place bombs and then give warnings that do not allow us to respond properly. They can only have been targeted at ordinary people on their way to work.

"When we got a warning it was for four specific streets. The second bomb went off in a street we had not been warned about." One street named did not even exist, forcing a general search.

Mr Tucker said the bombers' tactics were becoming recognisable. Confusing messages and not enough time were an attempt to shift the blame on to police as they struggled to clear suspected areas.

Tony Nelson, the minister responsible for City regulation, giving his first interview since reforms introduced by the government

City faces 'power of fear' regime

By Ralph Atkins and Richard Waters

TOUGHER control of City of London institutions by regulators able to exploit "the power of fear" is needed to overcome shortcomings in financial services laws, Mr Anthony Nelson, economic secretary to the Treasury, said yesterday.

Bigger budgets, a higher calibre of people, and more intrusive investigations should be used by regulators to correct weaknesses in the six-year-old Financial Services Act, Mr Nelson said in an interview with the Financial Times.

He said that the Securities and Investments Board, the main investment watchdog, already has the powers to take a more aggressive line, but has failed to use them. "I am a believer in the power of fear and believe that SIB should be bolstered in that regard. . . I want it to be more intrusive, incisive, where necessary more penal," he said.

However, although Mr Nelson was candid in admitting that the "self regulatory" system had faults, he ruled out bringing forward fresh legislation. "I would prefer to see reform within the existing system, rather than starting all over again," he said.

Mr Nelson's first interview since becoming the minister responsible for regulation came amid growing criticism by City practitioners of the current system. He acknowledged that a succession of failures had "understandably given rise to anxiety among investors and depositors".

But his refusal to order a fundamental rethink may disappoint some critics who his concern over self-regulation, would lead to widespread change in the City.

Mr Nelson moved to soothe City concern over legislation on insider dealing being considered by parliament. Although more broadly based than existing laws, Mr Nelson said: "I'm not about to embark on some kind of witch hunt for insider dealers."

He also rejected calls for a public inquiry into costs imposed by banks. He said the government would continue to "draw very directly to the attention of major banks" the criticisms, but added: "We have to remind people that at the end of the day they must take a close interest in the management of their own savings."

Mr Nelson said he hoped to give further details of possible reforms after a Treasury-commissioned review by Mr Andrew Large, chairman of the Securities and Investments Board, is completed early next year. That report is likely to be published, he said.

Mr Nelson ruled out using public money to pay for greater regulation, but said financial institutions would pay any extra cost that resulted from his review.

Odgers appointed head of monopolies body

By Robert Rice

MR GRAEME ODGERS, chief executive of Alfred McAlpine, is to be the next chairman of the UK Monopolies and Mergers Commission. He will take over in April from Sir Sydney Lipworth who has been chairman of the MMC since the beginning of 1988.

Although Sir Sydney came to the commission after a successful business career, Mr Odgers, 58, is the first non-lawyer to head the MMC.

His appointment was seen yesterday as a mark of the determination of Mr Michael Heseltine, the trade and industry secretary, to bring a stronger industrial perspective to bear on UK competition issues.

"The Secretary of State was looking for someone with a strong industrial and commercial background with a perspective closer to his views on competition," Mr Odgers conceded yesterday.

The search for a suitably experienced industrialist prepared to take a substantial pay cut to head the commission took considerably longer than anticipated by the department of trade and industry.

This delayed Sir Sydney's departure by a further four months after he had already served an extra year.

As well as taking a cut in salary from £309,000 to £87,620 Mr Odgers will have to give up his directorships of Dalgety and the National & Provincial building society.

His appointment is for a four year term. He will take up the full-time appointment on April 19 but will become a part-time member of the Commission on January 4.

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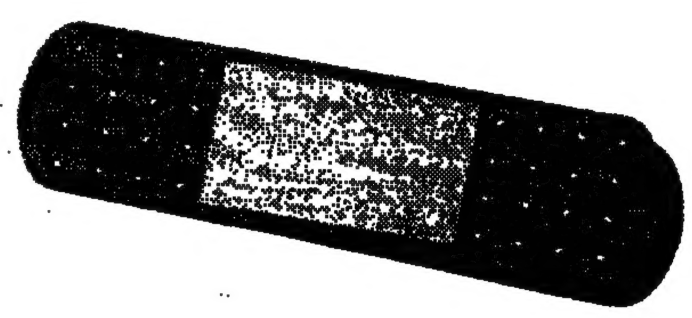
IT MANAGER
IFSC Dublin



British Coal presents plan to save 8,000 jobs

By Michael Smith

BRITISH COAL yesterday urged the government to adopt plans aimed at saving 13 threatened pits and 8,000 jobs and to change the law to enable it to boost efficiency.

The proposals were attacked by unions, who said saving less than a third of the 31 pits earmarked for closure and 30,000 jobs was not enough, especially as BC envisages that seven of the "saved" pits and 6,000 of the jobs would go within five years anyway.

The National Union of Mineworkers and the Nacods pit deputies union also oppose law changes by which BC could introduce 24-hour working, seven days a week.

Separately Mr Neil Clarke, BC chairman, said it was unlikely that contracts with electricity generators would be signed before the government published its energy review scheduled for the end of next month. He called for longer contracts with the power generators than the five years currently envisaged.

In its evidence to the Department of Trade and Industry's energy review, BC proposed a series of measures which it said would enable it to sell an extra 15m tonnes of coal a year over the next five years to the England and Wales electricity generators and another 5m to industrial and domestic customers, taking the total to 64m tonnes in 1997-8.

Mr Clarke said that if BC was to be profitable, extra sales to generators would have to be at the same price as agreed for lower volumes in existing tentative deals.

BC's proposals include:

- Deferring Sizewell B nuclear power station for a number of years, saving 3m tonnes of coal by 1997-8, and phasing out most Magnox nuclear stations over the next five years, saving 5m tonnes.
- Reducing gas burn at commited Combined Cycle Turbine Gas power stations and refusing permission for others to be constructed, saving 6m tonnes.
- Extending the UK tax on electricity – the fossil fuel levy – to French imports, and eliminating the present net inflow of electricity into Britain, saving 6m tonnes.

BC wants a slower reduction in coal stocks at power stations than currently envisaged and limits on the burn of bitumen-based orimulsion, an oil-based fuel. It also backs deferal of the proposed liberalisation of the electricity market in 1994 and 1998.

British Coal warned that without policy changes there would be just 11,000 deep pit miners and 15 pits by 1997. Even with the changes, there would be 25 pits, against the current 50, and 17,000 miners.

None of these calculations incorporate the effects of the the proposed changes in the law to improve efficiency. The changes could, BC estimates, cut average deep mine operating costs of £1.27 by a further 15p. Although that would enable BC to increase sales, it could decrease labour needs.

BC wants the government to repeal a 1908 law that limits underground shifts to seven and a half hours. Because of travelling time, many miners currently work just five hours at the coal face. BC would like to increase this to eight hours.

It also wants to be able to make compulsory redundancies and seeks the modernisation of mines and quarries legislation to allow more efficient management.

BC says the changes would enable deep mine operating margins to be 15 per cent in 1997-98, against 5 per cent otherwise.

Court seeks Nissan UK defendant

By John Mason

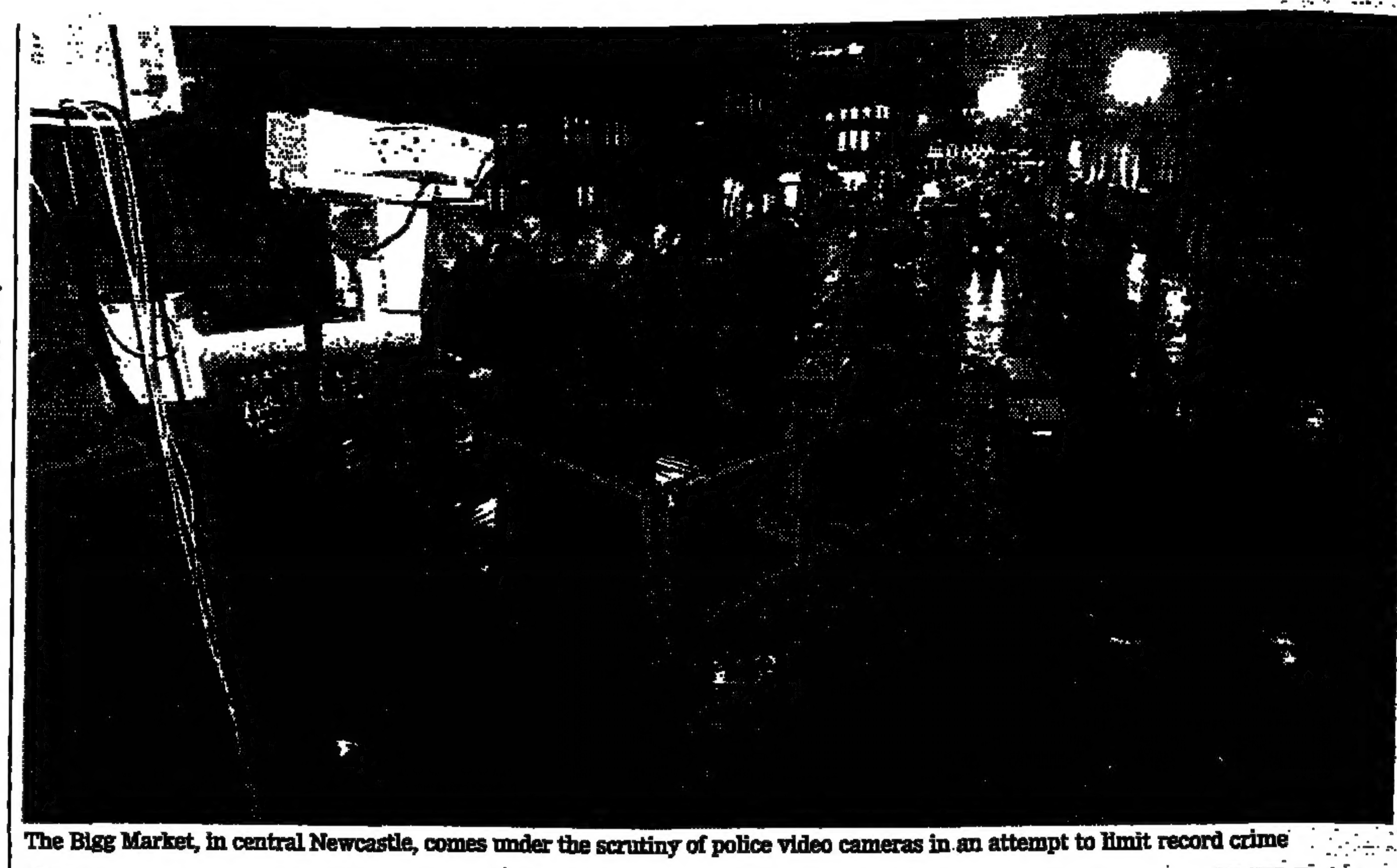
A WARRANT for the arrest of Mr Tore Arne Thorsen, a defendant in the forthcoming Nissan UK tax fraud trial, has been issued. He is refusing to return to the UK from Norway to face prosecution.

Mr Thorsen, the managing director of the Norwegian shipping agency Scansiris AS, is due to stand trial in March next year, charged with helping prepare false invoices which understated the profits of Nissan UK by £100m.

Mr Thorsen wrote to the trial judge last week announcing his refusal to appear in court for his trial.

His move means that only Mr Michael Hunt, former assistant managing director of Nissan UK, and Mr Frank Shannon, a former finance director of the company, are now likely to face trial next March. Both deny charges of corporation tax fraud.

A warrant has also been issued for the arrest of Mr Octav Botnar, former chairman of Nissan UK. He is now in Switzerland and is refusing to return to the UK. The Inland Revenue is unable to extradite him. However, the Inland Revenue is considering seeking the extradition of Mr Thorsen.



The Bigg Market, in central Newcastle, comes under the scrutiny of police video cameras in an attempt to limit record crime

Newcastle switches on anti-crime TV

By Chris Tighe

BRITAIN'S biggest city centre street surveillance scheme, linking 16 televisioncameras to a police control room, goes live today.

The £300,000 scheme is designed to monitor the movements of criminals in central Newcastle as well as deter and record crime and street disorder.

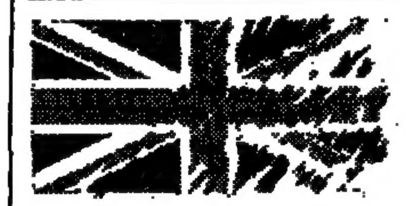
Some traders hope the zoom cameras, aided after dark by infrared lighting, will help thwart professional criminal gangs, who have even used ventilation tunnels to gain access to premises.

City centre businesses have contributed nearly half the set-up cost; the Department of the Environment, Newcastle City council and Northumbria police have paid the rest.

The force will also pay the £15,000 annual costs and employ four civilians to help monitor the screens.

Mr Gordon Allanson, manager of the Eldon Square shopping centre, said the public no longer regarded cameras as an intrusion, but was reassured by them.

Britain in brief



Land Rover set to win £150m order

A £150m Ministry of Defence order for 6,500 light military vehicles looks almost certain to go to Land Rover, the four-wheel-drive vehicle subsidiary of British Aerospace-owned Rover Group.

Solihull, West Midlands-based Land Rover is the only company to be asked to build trial vehicles for the order out of 20 European and North American manufacturers invited to tender by the MoD in June.

Assuming a pilot order is satisfactory the company would expect to be given the volume order. The MoD is Land Rover's biggest single customer and the order in prospect would be Land Rover's biggest single contract for a decade. Delivery is scheduled over five years starting in 1994.

Land Rover is also to build some larger Defender trial vehicles for another MoD contract four-wheel-drive utility truck order. But for this it is in competition with Steyr-Daimler-Puch of Austria, and the order itself is much smaller at 200 units.

Arts backing rises 14%

Corporate sponsorship of the arts in 1991-92 rose by 14 per cent to £65.4m. This was seen as a remarkable achievement given the recession and cutbacks in sponsorship by some major supporters, notably the banks and the oil companies.

US parts group opens factory

Johnson Controls, the US automotive components supplier, is to open an £8m plant at Burton upon Trent, Staffordshire, in the Midlands, to supply seats to the Toyota car assembly plant at Burnaston near Derby.

Johnson Controls, the world's largest independent supplier of automotive seats, already holds a 49 per cent stake in Ikeda Hoover, the company which supplies seats to the Nissan car plant at Sunderland, on the north-east coast.

Johnson Controls has been rapidly expanding its automotive seat operations in Europe in the last five years and currently has 23 wholly and partly owned plants in Germany, the UK, France, Spain, Belgium, Czechoslovakia and Portugal and a design and engineering centre in Germany.

Chip export to Iraq sanctioned

ICL, the computer manufacturer, has confirmed that three government departments had given approval in 1989 for an attempt to supply an advanced computerised defence system to the Iraq Ministry of Defence.

ICL, in which Fujitsu of Japan has a majority stake, said that the deal, involving the ICL-developed Air Staff Management Aid command-and-control system, fell through for "ordinary business reasons" long before the onset of the Gulf war.

ICL obtained export licences for the system's software in 1989 after detailed discussions with the Ministry of Defence, the Foreign Office and the Department of Trade and Industry.

TUC complaint to Brussels

Britain's regional electricity companies are breaking European Community regulations by buying gas in preference to cheaper UK coal, according to a complaint by the Trades Union Congress to the Sir Leon Brittan, the EC competition commissioner.

The TUC, the umbrella organisation for British trade unions, wants the European Commission to take legal action to halt the pit closure programme. It says the REcs are manipulating the market to ensure a place for the own new gas power stations.

The gas contracts are in breach of article 85 and 86 of the Treaty of Rome which outlaw unfair compeition and abuses of dominant market positions, according to the TUC. It says the government has an obligation to halt any pit closures while the investigation takes place.

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Friday December 4 1992

Thailand needs a government which can channel the country's dynamic but unguided economic growth in the right directions – and impose the rule of law on a society where power is often measured in money and guns. **Victor Mallet** investigates

Painful step towards democracy

Bangkok: The Temple of the Emerald Buddha and the Royal Chapel. Tourism, like industrial exports, suffered only a temporary decline as a result of the May crisis *Picture: Glyn Genin*

IT did not take long for Thailand to return to normal after four days in May that shook the nation. The economy is booming and parliamentary politics have been restored to their perennial state of instability.

Between May 17 and 20, Thai troops shot dead about 50 pro-democracy demonstrators on the streets of Bangkok in the most serious outbreak of political violence since the 1970s.

The protests were directed against Gen Suchinda Kraprayoon, the army commander who masterminded a coup in February 1991 and had himself installed as prime minister by a coalition of pro-military parties following a general election in March this year.

Gen Suchinda was forced to resign after the bloodshed – but not before he had issued an amnesty decree which pardoned himself and his military colleagues.

The legal controversy over the pardon was ended last month when the Constitutional Tribunal ruled that the amnesty could not be overturned. But many of the middle-class Bangkok residents at the centre of the May demonstrations are incensed that Gen Suchinda remains a free man.

At least 170 people are still reported to be missing following the protests and suspicions remain that troops took away several bodies and buried them secretly.The exact death toll is unknown.

"Many people still feel that justice was not done," says Mr Savit Bhotiwihok, a cabinet minister and a Democrat Party MP. "It leaves a bad taste."

A new election was held in September and the Democrats emerged as the largest party in parliament at the head of a group of broadly liberal coalition partners opposed to military intervention in politics.

Mr Chuan Leekpai, the Democrat leader, became the first elected Thai prime minister for 16 years not to have a military background. Mr Anand Panyarachun, a much-praised businessman and economic reformer who served two terms as interim premier following the 1991 coup – first appointed by the military and then, later, by the King – was an unelected appointee.

But Mr Chuan and his allies – dubbed the "angel parties" by the liberal press to distinguish them from the pro-military "devils" – won the election by the narrowest of margins. They were supported by the urban elite, but most poor voters in the countryside – who knew little and cared less about Bangkok politics – continued to sell their votes to corrupt politicians.

In the light of the election results, the events of May can be seen not so much as a dramatic turning point in Thai history as another painful step on the long road towards a properly functioning parliamentary democracy.

The armed forces have had their influence in politics and business reduced rather than eliminated.

One of the Anand cabinet's last acts before the September election was to remove air force officers from the board of Thai Airways International and replace them with civilian managers who have already started to revitalise the airline and root out corruption. The same medicine was applied to other military fiefdoms in domestic and international telecommunications.

And one of the first acts of Mr Chuan's administration was to seek to revoke laws which had allowed the military to break up civilian demonstrations without seeking approval from the cabinet.

But few political analysts are bold enough to suggest the armed forces are a spent force in politics or to predict that the Chuan government will last its full four-year term. Already there are signs of strain in the five-party coalition.

Yet now more than ever Thailand needs a government which can channel the country's dynamic but unguided economic growth in the right directions – and impose the rule of law on a society where power is usually measured in money and guns.

The economy, after a brief disruption during the May violence, is expected to grow at 7-8 per cent this year and continue expanding at the same rate into the second half of the 1990s. But successive governments have failed to plan transport and communications networks – Bangkok is notoriously congested and short of telephones – or invest in the new schools needed to create a skilled workforce for the long-term industrialisation of Thailand.

Tourism, like industrial exports, suffered only a temporary decline as a result of the May crisis, and arrivals in 1992 are now expected to exceed last year's 5.1m.

Thai officials, however, are worried that the environmental damage caused by uncontrolled development of industry and of the tourist resorts themselves is beginning to deter potential holidaymakers. The British consumer magazine *Which?* this year named Bangkok and the beach resort of Pattaya, with its sewage-tainted water, massage parlours and clinics for sexually-transmitted diseases, as the two sleaziest holiday destinations in the world.

Although it is true that other south-east Asian economies are experiencing similar growing pains, the problems in Thailand are particularly severe.

As this year's two elections have shown, Thailand embraces two nations – the urban rich, who bemoan the loutishness of their politicians and the poor state of government services but are unwilling to pay much in the way of taxes to remedy the situation, and the rural poor who often migrate to the cities to find work as labourers, domestic servants or prostitutes.

In attempting to introduce laws compatible with the growing sophistication of urban Thailand – such as those requiring compulsory third-party vehicle insurance and the wearing of motor-cycle helmets – the government found little support from MPs whose constituents rely mainly on tractors, bicycles and oxcarts.

Likewise, the wild movements of share prices on the Stock Exchange of Thailand, and the charges of price manipulation recently filed against a dozen speculators – one of whom had the equivalent of nearly $2m in cash lying around his office – by the newly-created Securities and Exchange Commission must have seemed of scant relevance to north-eastern rice farmers.

Average non-agricultural incomes are 13 times as high as those of farmers. Of the total workforce, 83 per cent have primary education only. "This is a land of primary education," says Mr Narongchai Akrasanee, a director of the Thailand Development Research Institute. "The economic boom of the last decade has not substantially changed this picture."

In contrast to Mr Anand, who concentrated on macro-economic policy and the interests of the Bangkok business community, Mr Chuan, a southerner, quickly identified rural and regional development as a priority.

The government has promised that more money will be channelled directly to the provinces. It has pledged to support the continued development of the fast-growing eastern seaboard, and vowed to start a project in the south to build a road, rail and pipeline "land bridge" linking the Andaman Sea and the Gulf of Thailand, a trade route which could divert cargo from the congested Strait of Malacca.

Mr Chuan's ministers are also attempting to sort out the tangle of mutually incompatible mass transit railway projects for Bangkok agreed by previous governments, but they believe the best solution to the capital's traffic problems is to lure investors to the provinces.

"I would prefer to see the funds being used for the new strategic growth of Thailand," says Mr Savit. "You have to provide new alternatives elsewhere which are competitive with Bangkok."

There is little doubt that the government has good intentions. The question is whether the mild-mannered Mr Chuan is strong enough to hold his coalition together without compromising his policies into insignificance, and whether his government will last long enough to carry out the tenuous mandate it inherited from the events of May.

THE ECONOMY

Semblance of normality

Psychologically, the September 13 general election in Thailand marked the end of a big freeze for the economy. The Gulf crisis that began in August 1990 had suddenly taken bullish sentiment out of the speculative stock and real estate markets. With the coup of February 23, 1991, the country's politics and economy took on a transitional air as investors and the public waited for a new constitution to be drafted and elections to be held. The election on March 22 this year served merely to plunge the country into deeper crisis.

It was only after the violent clashes in May were resolved and the military's wings clipped that a semblance of normality could return, with the September election and the installation of the Chuan Leekpai government.

The task ahead for the Chuan government will not be easy, however. It will have to overcome the Bangkok elite's distrust of the economic management style of previous elected governments. At the same time, it will have to cater more for the rural electorate that was ignored under the two governments of Mr Anand Panyarachun.

Within its first few weeks, the new government has therefore swung between the liberalism of the Anand governments, favoured by the modern business sectors, and pressure to intervene to support agricultural prices. Nevertheless, although these are still early days, some observers detect a new maturity in economic and political matters both in the government and the opposition.

Classical dancers: income from tourism, a big foreign exchange earner, has stagnated

Foreign investors did not like the coup; nor did many urban Thais. But few were prepared to defend the overthrown Chatichai Choonhavan government, with its worsening reputation for corruption.

Although the military, too, were blamed for corruption, elected governments were becoming tainted with accusations of economic mismanagement and a new crisis of confidence appeared to be in the making as the September election approached.

Having overthrown the military and defended parliamentary democracy, the urban middle classes now faced the prospect of elected politicians who would grab as much as they could while in power, and rock the boat as much as they could while in opposition.

Mr Chuan and his coalition colleagues have tried to prove that they, too, can place the economy in capable hands.

Three senior bankers, unelected but with political inclinations, have been put in charge of the economy: Mr Tarrin Nimmanhaeminda, former president of the Siam Commercial Bank and Thai Bankers Association, is finance minister; Mr Supachai Panitchpakdi, former president of the Thai Military Bank, is deputy prime minister in charge of trade negotiations and other economic matters; and Mr Amnuay Viravan, former executive board chairman of Bangkok Bank, is another deputy prime minister with economic responsibilities. Observers have warned that the three could become rivals, but so far insiders say they have been working together well. One economist has welcomed the prospect of the first debates on economic policy – as distinct from sharing out economic spoils – within the Cabinet.

One of the first issues they had to tackle was the budget for fiscal 1993, which should have been operational since the beginning of October. Earlier political turmoil delayed the bill's passage through parliament.

Signalling their determination to retain Thailand's traditionally cautious fiscal policy, the three said they would submit a bill that essentially continued with the previous practice of balancing budgets. A new budget accounting method which takes account of when the money is likely to be spent – rather than in which year the spending is administratively handled – will give the government a slight deficit on paper, however.

In the past few years, planned balanced budgets have actually yielded end-of-year surpluses for the government. The official treasury reserves now stand at about Bt200bn. Such a large figure has been tempting to politicians, some of whom are suggesting it could be used to write off farmers' debts. Most economists warn that drawing heavily on the treasury reserves would be inflationary and although Mr Tarrin initially toyed with the idea of making some use of the money, he has now changed his mind.

Annual inflation, measured by the consumer price index, is about 5 per cent, a level that few would want to rise.

Despite the uncertainties and the slowdown in investment compared with the 1980s, investment has continued quietly. Some businessmen see signs that increased prosperity in a population approaching 58m could mean domestic demand serves to continue the momentum should the external climate take a downward turn.

Exports are still expected to have risen by almost 16 per cent to about Bt835bn this year, with imports up a more modest

Most economists envisage economic growth of about 8 per cent for the next few years

10 per cent to about Bt1,070bn. Earnings from tourism, a big foreign exchange earner, have stagnated since 1990.

One economist has even forecast a return to the double-digit growth of the late 1980s. But most envisage economic growth of about 8 per cent for the next few years provided the international climate does not become too depressed.

Opinions differ over how serious is the trade deficit in goods and services – the current account. One of the causes of the deficit is a failure of domestic savings to cover Thailand's investment. Some economists, including those in the Bank of Thailand, believe that domestic savings can be increased sufficiently to keep the current account deficit at sustainable levels.

But Mr Supachai, himself a former central banker, has expressed concern that the current account deficit could remain a serious problem over the next few years and therefore threaten the stability of the economy. This year, it is running at about Bt180bn a year or 6.6 per cent of gross domestic product, down slightly from last year's 8.25 per cent.

With cautious fiscal and monetary policies likely to remain solid foundations for the economy, the big challenge for the government is likely to be its handling of the country's infrastructure bottlenecks. Large-scale road, mass transit and telecommunications projects have been prime targets for corruption and have been delayed as frequent Cabinet reshuffles and government changes have swung the odds for various bidders.

The Anand government tried to reform the selection procedure for large projects in order to make selection more accountable and less susceptible to corruption. Whether the new government will continue along those lines remains to be seen. Mr Chuan is known to be clean, but he does not have the economic acumen of his predecessor and could place less emphasis on sound project screening.

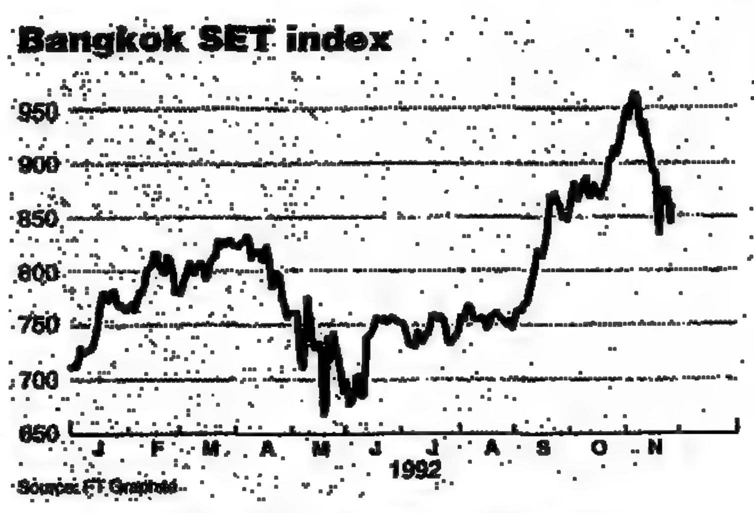
Peter Ungphakorn

THE STOCK MARKET

Regulators under fire

This was supposed to be the year when the regulators brought discipline and maturity to the lively casino known as the Stock Exchange of Thailand (SET). The reality was somewhat messier.

It all started cleanly enough. With the economy booming and new companies being listed on the exchange every week, Thailand enacted a law on the regulation of financial markets and installed the new Securities and Exchange Commission (SEC) in one of the central bank's offices on Surawong Road in Bangkok.



Perhaps it was unfortunate that the SEC's formation coincided with the market's nadir in May, when Thai soldiers were killing pro-democracy demonstrators on the streets of the capital.

For as confidence revived following the political defeat of the armed forces, the return of law and order and the election of a civilian coalition government in September, investors and speculators piled into the stock market, often buying shares with money lent to them by their stockbrokers.

The SET index rose inexorably and by November 5 it had reached 963.03, up 44 per cent from its low of 667.84 on May 19. Bangkok's trading volume soared as well, and at times was second only to Tokyo among Asian bourses.

Meanwhile a controversy had erupted over a meteoric rise in the price of shares in Bangkok Bank of Commerce (BBC), the country's ninth-largest bank. Mr Song Watcharasriroj, a wealthy market player better known as Sia (Tycoon) Song, turned out to have bought a large stake in the bank, but nobody knew quite how much he owned.

His personal declared stake was 10.66 per cent, but most people believed he had bought at least 25 per cent of the bank in collaboration with a group of relatives and associates, in which case he should have made an offer for the rest of the shares.

Mr Song, who like most other market players was able to benefit from stockbrokers' credit lines, was accused of being a "greenmailer" and of manipulating the shares without keeping the SET informed of his real holding or his intentions.

At this point various officials started talking about the case to the press and hinting that they were about to do something. The SET, the SEC, the finance ministry, the central bank and the police were all involved. "No-one has given a clear delineation of duties. It's a mess," said one stockbroker. BBC shares fell.

The SEC, under fire not just because of its inaction but also because some of its members evidently had conflicts of interest – one was advising the chairman of BBC in the battle against Mr Song and another, the head of a brokerage, had announced that Mr Song was innocent – pleaded for more time.

"It's not that simple," Mr Ekamol Kiriwat, SEC secretary-general, told the FT in an interview. "How long did it take for [Michael] Milken to be in trouble?" He complained that people were smearing his reputation with false allegations that he had met Mr Song, and said it was hard to prove that speculators were acting in concert with each other even when everyone knew it was true.

"Some people say we should not disclose anything and others say we are not doing anything," he said. "I did not even want this job."

Meanwhile the finance ministry and the central bank had moved to prick what they saw as a potentially dangerous stock market bubble inflated by easy credit. By September, brokers had outstanding loans of Bt62.66bn to their clients – three times as much as a year earlier – and there were signs that speculators were also using personal loans from the banks to buy shares.

"We are trying to allow some steam out of the bubble before it becomes a bubble," said Mr Asavin Chintakananda, the SET executive vice-president. "I think we have the matter well in hand."

The Bank of Thailand named 22 brokers with outstanding loans of more than Bt1bn – one had more than Bt10bn – and told them to restrict credit. The SET index started to fall. Then the SEC pounced on Mr Song, announcing on November 18 that they had filed a case with the police against him for manipulating shares. Investors feared further moves against market players – after all, the SET had passed on 11 cases of suspected malpractice to the SEC and only one of them appeared to involve BBC and Mr Song – and dumped their shares. The market plunged and angry small investors staged demonstrations outside the exchange.

Mr Song, a dapper 35-year-old, emerged into the limelight to protest his innocence. "I have never sold BBC shares since buying them," he said at a Bangkok hotel. "I have not made any gains from this bank's shares. So how could they charge me with manipulating the price?" He calmly produced Bt10m in cash for his bail money; it was twice as much as required.

At the time of writing, the case of Mr Song has not been resolved but most stockbrokers assume that the SET index will start to rise again.

At first, Thai small investors seemed unimpressed by the government's hasty decision to mobilise Bt15bn of funds to buy shares and stabilise the market: Bt5bn from the government-controlled Krung Thai Bank and a further Bt10bn from stockbrokers.

But some foreign investors looked at the market's fall as a heaven-sent opportunity to buy. Corporate profits are strong and the Thai economy is growing at 7 or 8 per cent a year.

The SET, now with more than 300 listed companies, recently upgraded its computer system to handle up to 200,000 orders an hour, compared with current peaks of less than 100,000. A group of brokers are planning to set up an over-the-counter market for smaller companies which would operate alongside the SET.

"We are going through this particular phase when the SEC is still very new," said a quietly confident Mr Asavin. "We are investigating who might be taking certain liberties, but I can assure you that the Thai stock market is not being manipulated more than any other market in the world."

Victor Mallet

THAI AIRWAYS INTERNATIONAL

Air Force officers ousted

THE turmoil in the boardroom of Thai Airways International (Thai), the partly privatised national airline, has mirrored the upheaval in national politics: in both cases the military were finally thrown out.

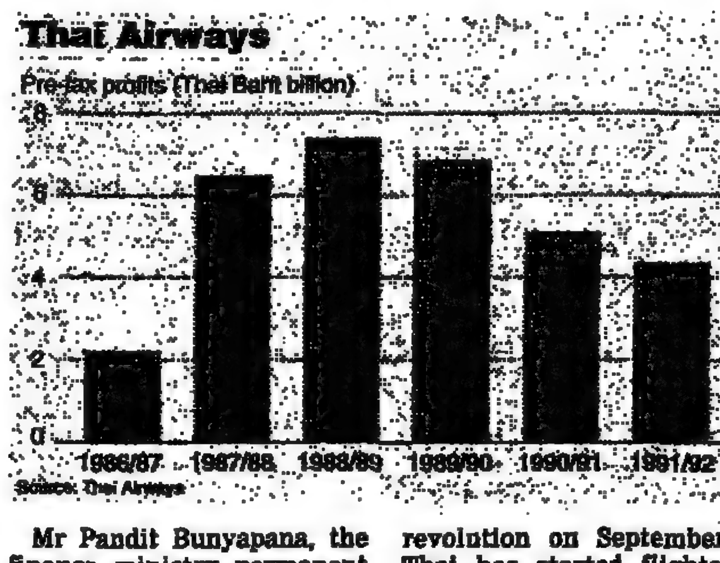
For decades, the senior officers of the Royal Thai Air Force had controlled the board of Thai and treated the airline as their personal fiefdom, but this year they were ousted from the company by the interim civilian government of Mr Anand Panyarachun.

Mr Anand and his cabinet, appointed by the King after troops killed about 50 pro-democracy demonstrators on the streets of Bangkok in May, moved rapidly to reduce military influence in state enterprises before leaving the field to the new civilian coalition government elected in September.

The targets included such military-dominated cash cows as the Communications Authority of Thailand, which controls international telephone calls, as well as Thai Airways.

Thai, however, provided the clearest evidence of the military's declining influence, partly because its business gives it a higher public profile, partly because its shares are now listed on the stock exchange, and partly because Air Chief Marshal Kaset Rojananil, the supreme military commander at the time of the May killings, was at the same time also the chairman of the Thai Airways board.

With less than a week to go before the September 13 election – which might have produced a pro-military government but ended up handing the country a broadly liberal coalition – the Anand government succeeded in removing the reluctant air force officers from the Thai board and installing its own civilian nominees.



Mr Pandit Bunyapana, the finance ministry permanent secretary, became chairman, and Mr Chatrachai Bunya-Ananta, Thai's marketing chief, was promoted to the post of president.

The changes at Thai, valued at about $3.5bn by the stock market, were swift and visible, and Mr Chatrachai himself is a changed man.

Under the old regime, the urbane Mr Chatrachai was deputed to receive foreign visitors but, mindful of his military bosses, he was only able to shrug and give the most evasive answers to queries about corruption or the airline's financial health.

One of the most glaring examples of mismanagement was Thai's decision to waive its rights to fly the lucrative routes to Cambodia in favour of Bangkok Airways, a local airline with links to Air Chief Marshal Kaset.

Mr Chatrachai and other Thai executives wheeled out a motley collection of excuses, ranging from the poor state of Phnom Penh airport to the alleged lack of passengers – at a time when competitors such as Malaysia Airlines were starting to fly in from other centres, flights from Bangkok were full and passengers were paying exorbitant fares for the route.

Since the boardroom revolution on September 7, Thai has started flights to Phnom Penh and Mr Chatrachai has moved quickly to expose the follies of his predecessors and restore the airline's fortunes.

"We have to set about cleaning our house, reorganising and restructuring to return to a leaner and more efficient organisation," he told a corporate planning conference in November.

In his speech, he soberly assessed where Thai had gone wrong and outlined his plans for the future.

The fall in profits could be blamed partly on the effects of the Gulf war, the recession in leading international markets and the political violence in Thailand in May, he said.

But there were other factors, too, including lower productivity among Thai's workers and a proliferation of aircraft and engine types which made maintenance more expensive.

Thai may have been doing better than the average international airline, but its operating margin of 7.2 per cent compared unfavourably with its principal competitors in the booming Asian market, Cathay Pacific with 17.4 per cent and Singapore Airlines with 19.2.

Mr Chatrachai produced a graph which showed the break-even load factor line crossing and rising above the drooping load factor line in 1991.

In other words, the airline was losing money on flights, even if it had been able to massage its profits with other operations and the sale of aircraft.

This year, Mr Chatrachai said, the load factor was 66.3 per cent, whereas a figure of 78 or 80 per cent was "child's play" a few years back.

He has already started to apply his medicine. He has banned any expansion of Thai's 20,000-strong workforce and is attempting to deploy his staff more profitably.

He has also cut flights and reduced the seat-kilometres flown by 4 per cent.

He has decided to retire eight aircraft – five BAe-146s and three DC-10s – eliminating two aircraft types at a stroke and thereby reducing the cost of maintenance and of spare parts stocks.

Mr Chatrachai disclosed that some aircraft were flying less than three hours a day.

Those who bought Thai's shares when 7 per cent of the airline was sold to the public by the state earlier this year, and who have watched the share price languishing below the 80-baht offer price, are delighted by the new management's apparent dynamism.

If Thai's profits and its share price react positively to Mr Chatrachai's initiatives, he may be able to fulfil his ambition of selling another 14 per cent of the company to local and foreign investors by the end of this financial year in September 1993.

"I feel that by next year we may be in a position to launch an overseas road show, perhaps in London, Hong Kong and Tokyo prior to our second shares offering," Mr Chatrachai said.

Victor Mallet

LINKS WITH ASEAN

Progress towards a free trade area

On January 1, Thailand and its five partners in the Association of South East Asian Nations (Asean) are due to start cutting tariffs on goods traded within the group. By the year 2008 these first steps should have led to the creation of an Asean Free Trade Area (Afta).

Thailand was the main driving force behind the agreement to set up Afta. This was not because Thailand was more liberal than the other five – Brunei, Indonesia, Malaysia, the Philippines and Singapore. Far from it; Thailand's tariffs are on average the highest in Asean and towards the end of the year some Asean partners were beginning to question Thailand's good faith.

There were two principal reasons for Thailand's push. First, in the months leading to the 25-year-old group's third summit in Singapore in January this year, Thailand happened to have as its prime minister Mr Anand Panyarachun. Mr Anand is a committed free-trader and, as an active member of the Asean Chambers of Commerce and Industry, had lobbied for years for Asean trade liberalisation. His efforts bore fruit when the Afta agreements were signed at the January summit.

Second, with the Europeans and North Americans integrating their markets, and with the Uruguay Round of world trade liberalisation talks in limbo, some sections of the Thai business community and bureaucracy were convinced that Afta was needed.

With a population size matching that of the European Community, a liberalised Afta would attract more investors, according to this view. It would cut costs and help Asean respond to the increased competitiveness arising from the North American Free Trade Agreement and the European Single Market. If necessary, it would provide alternative markets for Asean exports which presently depend on the west, should Nafta and the EC become protectionist trade blocs.

Asean countries still tend to trade more with Europe, North America and Japan than among themselves. Only about 20 per cent of Asean members' trade is with other Asean countries, and the figure falls to about 5 per cent if Singapore is excluded. But the statistics show a slow growth, suggesting the six are gradually becoming more important to each other.

Economic integration within Asean would imply that the prices of traded goods would be more uniform among the six markets, that exchange rates would rise and fall together more closely and that money and capital markets would show greater unity. This has not been happening in Asean, says Prof Rolf Langhammer of the Kiel Institute of World

Perhaps the most confusing episode for Thailand's Asean partners was in October

Economics in Germany.(*)

"One cannot say that Asean as an entity enjoyed a trend towards a higher degree of market integration in the past, perhaps except for some small segments like consumer goods," he says. "Against this background, Afta has to be seen as a signal and perhaps as a push factor towards some degree of convergence."

Mr Anand also offered his Asean partners a special gesture. Because Thai tariffs were the highest in the group, he promised that from January 1, 1993, a ceiling of 30 per cent would be imposed on all tariffs on goods imported from other Asean countries. Eleven months later, Thailand is seen in some Asean countries as having second thoughts.

On December 11 and 12, the Asean ministerial council set up to administer Afta is due to agree on details of the first steps towards regional free trade. Thai officials preparing for the meeting were considering seeking delays in some tariff cuts that could cause resentment among other Asean countries and even threaten to unravel the Afta agreements.

The most controversial is an Agriculture Ministry plan to delay import duty cuts on palm oil. Palm oil and chemicals are product groups that have been the subject of the most intense lobbying for continued protection in Thailand. They are among the 15 sectors specified at the Singapore summit for "fast-track" accelerated Afta tariff cuts to 0-5 per cent within seven to 10 years, but with escape clauses that allow delays in liberalisation at least for eight years.

The southern provinces, where most of Thailand's oil palm is planted, are the stronghold of the Democrat Party of Mr Chuan Leekpai, who replaced Mr Anand as prime minister after the September 13 general election.

In November, a House of Representatives committee said it would call Mr Anand to explain why the Afta agreements had been signed without parliamentary ratification.

But perhaps the most confusing episode for Thailand's Asean partners was in October when Asean economic ministers held their annual meeting in Manila. At the start of the meeting, the Thai delegation said it had no mandate to agree on Afta subjects, the most important item on the agenda, because right at that moment the Thai parliament was debating the new government's policy statement.

However, there was more going on than the simple question of Thai parliamentary protocol. Severe rivalries have developed within the Thai bureaucracy over which ministry should take the lead in international trade negotiations, and without strong leadership from the new coalition these rivalries left the Thai delegation in disarray.

As soon as parliament had approved the policy statement, Mr. Supachai Panitchpakdi, the deputy prime minister assigned to handle international trade negotiations, took charge of the situation. He assured the rest of Asean that Thailand remained committed to Afta, both in principle and according to the agreements signed in Singapore. Was he right, or are the suspicions that Thailand is having second thoughts justified?

A freighter unloads cargo onto a lighter in Bangkok. Only about 20 per cent of Asean members' trade is with other Asean countries — 5 per cent if Singapore is excluded Picture: Glyn Genin

The suspicions are partly justified because the arrival of a new, elected government has shifted the emphasis slightly away from the modern business interests that Mr Anand and his appointed government represented. This, together with the Democrats' strength in the south, means that pressure to protect palm oil now carries more weight. And because palm and other vegetable oils are important exports for Malaysia, the Philippines and Indonesia, an attempt by Thailand to delay liberalisation in this sector would be viewed with displeasure by those countries.

A coalition government means a greater susceptibility to lobbying, and a greater need to seek compromises. Therefore the chemicals industry's desire to remain protected could also carry weight. But the lobbying is not new and in this sense does not represent a shift in Thai thinking.

The principles of free trade have gained considerable acceptance in Thailand. Sectors seeking continued protection normally need to base their arguments on special and temporary needs, and often face opposition within their business associations.

The Federation of Thai Industries has long been split on regional free trade. Countering the arguments of the chemicals industry are the textiles and garments manufacturers who want lower-cost fibres and dyes, made from those chemicals, in order to retain competitiveness in the export markets in the west.

In one sense Thailand is different from the rest of Asean with the exception of the Philippines: the debates between the interest groups are more public and more intense. This may not always be easy for Thailand to explain to neighbours such as Malaysia and Singapore where the governments are more authoritarian.

The bids by the various lobbies to retain protection could still fail. Because Afta is being phased in over several years, officials are preparing programmes to absorb the shocks. And compromises can be found to allow tariff reductions while retaining some protection.

The Thai chemicals industry is not so much afraid of competing with imports made in other Asean countries, but of low-duty imports of non-Asean chemicals that have undergone cosmetic changes within Asean countries such as Singapore.

This particular problem could be solved with tougher rules of origin, a sensitive issue debated behind closed doors at Asean meetings that has not received much public attention. The Thai chemicals industry could find an ally in Indonesia which has been pressing for stiff rules of origin.

* *Rolf Langhammer: Afta – A step towards intensified economic integration? Paper presented at a seminar on Asean: Future Economic and Political Co-operation, Institute of Strategic and International Studies, Kuala Lumpur, November 13-14, 1992.*

Peter Ungphakorn

POLITICS

Adjusting to modern needs

"DOES this mean a split in the coalition?" reporters asked Thai government leaders barely a week after the new cabinet had been announced on September 29.

The context of the question was unimportant. It happened to be about one party's decision to make public its ministers' assets, a move not emulated by the other four parties. But it could have been about the proposal to elect provincial governors, or any other subject being debated as the new government prepared its policy statement for parliament.

Thai politics had returned to normal. The public would complain about the bickering and self-promotion among members of parliament. The urban electorate would complain about vote-buying in the countryside. Academics and other intellectuals would complain about superficial policy debates and decision-making. And economists would complain of "rent-seeking" – corruption in various guises – and unwise interventions in commodity markets.

The urban elite and expatriates would regret the departure of Mr Anand Panyarachun, twice the caretaker prime minister. Activists would pester the government to investigate the fate of about 200 people who went missing during the military clampdown on pro-democracy demonstrators in May.

But property and stock market speculators celebrated the prospect of a return to the bullish markets that they had enjoyed before the Gulf War and the February 23, 1991 coup.

Some of this enthusiasm was dampened with the eruption of a share manipulation scandal in mid-November that sent the stock market index tumbling. Nevertheless, Thailand's messy politics no longer entirely destroy confidence. Its open government and freedom of speech, with all their disadvantages, are often seen as attractions for investors.

Recent history shows that despite its weaknesses, the political system is adjusting to the modern needs of an increasingly sophisticated society.

The September 13 general election was the second this year. The first, on March 22, brought to the premiership Gen Suchinda Kraprayoon, leader of last year's coup. The military's claim at the time of the coup that they had no intention of retaining power for themselves was discredited and mass demonstrations in May led to a bloody military suppression that ultimately forced Gen Suchinda out of power.

Following the intervention of King Bhumibol Adulyadej, the Thai government was once again in the hands of Mr Anand Panyarachun, the independent-minded businessman and former diplomat who was first appointed after last year's coup.

This time, Mr Anand set about reducing the power of the military through legislation and a reshuffle of the top brass before handing over to an elected government.

For the time being, the military are back in their barracks. At some future date, their return to politics cannot be ruled out, but the trend of the past decades is for this to be increasingly difficult.

The results of the September 13 general election have to be interpreted with care because they indicate mixed and often conflicting tendencies. One outcome was the emergence of the Democrat Party as the largest in Parliament. The Democrats are probably the closest in Thailand to a genuine political party because they rely less on the domination of individuals.

Mr Chuan Leekpai, the Democrat leader and new prime minister, is considered to be honest. His modest lifestyle contrasts with that of many of his parliamentary colleagues. Mr Chuan eschews the trappings of power of his predecessors, accepting a modest police escort but preferring his personal Toyota to his official Mercedes.

Mr Chuan and his coalition partners have appointed several unelected ministers to oversee the economy, a move partly in response to recognition that parliament lacks individuals with skills in economic management.

Many believe that these ministers will stand in the next election, further strengthening electoral politics.

The welcome that Mr Chuan received also reflects a growing concern with the more corrupt side of parliamentary politics. Corruption was used as an excuse for the military's overthrow of the Chatichai Choonhavan government in last year's coup and even though it was not the military's real motive, it was one reason why public criticism of the coup in the capital was initially muted.

The debate over the public declaration of ministers' assets reflects the growing concern with corruption. The law already requires ministers to report their assets to the Counter Corruption Commission. One party, Palang Dharma, which has placed particular emphasis on clean politics, has made its ministers' assets reports public. Coalition partners have described the Palang Dharma move as a publicity gimmick.

Corruption remains a concern partly because the Thai system still relies largely on patronage and influence, with little emphasis on policy issues. The modern, urban, middle classes that played such a dominant role in the overthrow of the military in May want an open parliamentary system that concentrates on reasoned decision-making.

They realise, paradoxically, that their achievement has actually been to swing the balance towards the rural electorate whose criteria for choosing MPs are not approved in the cities. Despite a minor shift by voters that brought to power the parties involved in the pro-democracy demonstrations in May, the September 13 election appears to have seen as much if not more vote-buying than its predecessors.

Rural voters are so alienated from Thailand's centralised state machinery that they often have to rely on the skills of manipulators and influence peddlers if the villages are to gain a share of the country's resources. A candidate's skill and generosity in handing out money at election time can be a measure of his ability to peddle influence, and to use the networks of personal patronage to bring asphalted roads, electricity and water to the villages.

Political patronage comes in many forms, and sometimes it is associated with violence. One Thai academic privately describes the country's rural MPs as "hoodlums in suits". As with so much of Thai politics, however, the colourful summary does not accurately reflect the complex reality.

Others argue that rural voters are acting rationally when they accept money or even vote for candidates supported by the local godfathers. The only way to reduce the unappetising aspects of electoral politics is reform, to give local government more power, resources and accountability, according to this argument.

It is an argument that is beginning to gain acceptance; most parties promised during the September election campaign to reform local government. Coalition parties are divided, however, on whether to start at the village or district level, or to begin with directly elected provincial governors to replace officials currently appointed almost in colonial fashion by the Interior Ministry in Bangkok.

The Palang Dharma party of Maj-Gen Chamlong Srimuang, which took a more radical anti-military line in the May protests, wants early elections for provincial governors.

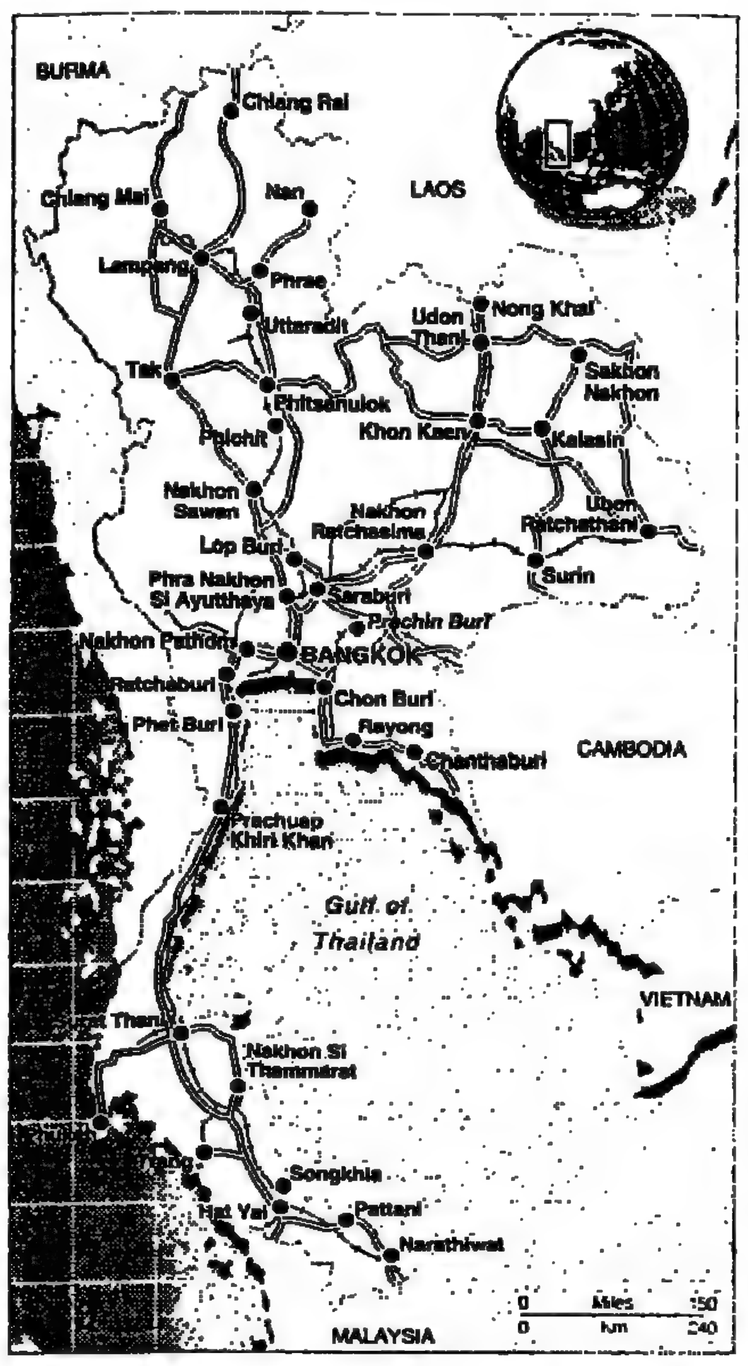
Gen Chavalit Yongchaiyudh, New Aspiration Party leader, interior minister, and former army chief – and also a staunch opponent of the military group that seized power last year – argues that other reforms need to be introduced first. His critics accuse him of breaking an election promise and of capitulating to interior ministry officials.

Such splits can always destroy a coalition government, sometimes almost without warning. But the costs of an election campaign are now so high that the MPs are likely to avoid a swift dissolution of parliament. They have already seen two elections this year and Mr Chuan's cool temperament and honesty could avert disruptive excesses.

Peter Ungphakorn

THE NEW THAI PARLIAMENT

	Leader	Seats
Coalition parties:		
Democrat	Chuan Leekpai	79
New Aspiration	Gen Chavalit Yongchaiyudh	51
Palang Dharma	Maj-Gen Chamlong Srimuang	47
Social Action	Montri Pongpanitch	22
Solidarity	Uthai Pimpchaichon	8
TOTAL		207
Opposition parties:		
Chart Thai	Pramarn Adireksarn	77
Chart Pattana	Gen Chatichai Choonhavan	60
Seritham	Arthit Urairat	8
Muanchon	Pol Capt Chalerm Yubamroong	4
Prachakorn Thai	Samak Sundaravej	3
Rassadorn	Chaipak Siriwat	1
TOTAL		153



KEY FACTS

Area .... 514,000 km²
Population 57.6m (1992)
Head of State .... King Bhumibol Adulyadej
Head of Government .... Chuan Leekpai
Currency .... Thai Baht
Average exchange rate .... 25.52 (1991 average). Latest 25.42

ECONOMY

	1991	1992
Total GDP ($bn)	91.70	106 3
Real GDP growth (%)	8.2	7.2
o/w agriculture	2.2	3.5
non-agriculture	9.3	7 8
GDP per capita ($)	1,609	1,845
Sectoral shares in GDP (%)		
Agriculture	13 8	n/a
Industry	36.4	n/a
Services	49.8	n/a
Total	100	
Ind. production (% change pa)	8 4	7.1
Consumer prices (% change pa)	5.7	5.0
Unemployment (% of lab force)	4 2	4.7
Reserves minus gold ($bn)[1]	17.5	20.2sep
Narrow money growth (% pa)[2]	13.8	19.7aug
Broad money growth (% pa)[2]	19.8	15.3aug
Discount rate (% pa, year end)[2]	14 0	12.0aug
Stock Mkt (% change over year)[3]	+ 16.1%	+ 19.11
Govt. budget balance (Bt bn)	+ 104.2	n/a
Govt. Balance (% of GDP)	+ 4.5	n/a
Current account balance ($bn)	-8 0	-7 5
Exports ($bn)	28.1	32.0
Imports ($bn)	33.0	35.5
Trade balance ($bn)	-4.9	-3.5
Total external debt ($bn)	27.4	29.1
Debt service ratio	15.1	13 8
Main trading partners (1991)	Exports	Imports
Japan (% share)	18.3	28.8
US	21.8	10.7
Singapore	7 8	9.2
Germany	5.4	5 3
Taiwan	1.7	5.1

Notes: 1992 figures are forecasts except for those noted which are ([1]) September; ([2]) August; ([3]) as at November 25

Source: Bank of Thailand, Ministry of Finance, NESDB, Ministry of Commerce, IMF, ADB, Datastream, Economist Intelligence Unit

Mr Chuan has pledged to put more emphasis on rural development

Interview: Chuan Leekpai

Experienced and honest

Unlike most of his predecessors, Mr Chuan Leekpai, Thailand's new prime minister, is neither an army general nor a Bangkok-based, western-educated aristocrat.

The mild-mannered Mr Chuan, leader of the Democrat Party, has been an elected member of parliament for the southern constituency of Trang for 23 years. After the election which followed the killing of pro-democracy demonstrators by troops on the streets of Bangkok in May, he emerged as prime minister at the head of a five-party coalition government.

Mr Chuan, 54, is of humble origins. His father was a teacher and his mother a vegetable-seller and he describes himself as "an ordinary man". He has pledged to put more emphasis on rural development than previous Thai governments. Although regarded as honest and experienced in politics, he has been branded a "wimp" by some of his opponents.

He spoke to Victor Mallet and Peter Ungphakorn at Government House. These are excerpts from the interview, translated from Thai:

Question: What do you hope to achieve during your tenure?
Chuan: There are policies we want to emphasise that are different from those of previous governments. The first is the promotion of democracy at all levels... It will probably take some time. We'll start at the level of villages and tambons [sub-districts]. The second is a problem raised by economists and academics who work with us. As a politician I agree with them. It is the problem of income distribution.

Q: What exactly will you do?
Chuan: We will expand job creation in non-agricultural sectors. This is the policy of spreading investment into rural areas. The Finance Ministry and the Board of Investment will be asked to co-operate by providing clear and sufficient incentives for investors to regard rural areas as priority targets and to provide them with profits.

We have to accept the reality that to expect them to make sacrifices would be too idealistic. So the state will have to be prepared to create incentives for them.

Secondly, we can offer income support by cutting people's expenses. This is also a reality – that poor people tend to have problems with their health and their children's education... We think we should allocate perhaps no more than a few billion baht of the budget to look after people who are unable to look after themselves, for example children and the elderly...

As for the job creation and income distribution, we would hope to take some people out of the agricultural sector. Those who cannot leave would still farm but they would not have to share too much of the land with other people. They would then have enough land to earn a reasonable income.

Q: Do you agree with those who describe the Anand government [the previous administration] as pro-big business and your government as pro-rural?
Chuan: Prime Minister Anand had more experience from the industrial sector. We have more experience from the village sector. Nevertheless, if the industrial sector is not successful, job expansion for the village sector will be difficult, and therefore the two depend on each other.

Q: Which of Anand's policies will you continue, and which will you change?
Chuan: Among the policies of Prime Minister Anand that we should continue... is limiting the expansion of the bureaucracy. The bureaucracy should not be free to expand. And Prime Minister Anand's policy of placing emphasis on free trade is a policy I think has been adopted by three or four [consecutive] governments. I will try to continue with it, including Prime Minister Anand's policy on Afta [the Asean Free Trade Area]. I think it should expand beyond Asean, but that is something that should be discussed further.

Q: Has the Sia Song affair [involving a clampdown on stock market speculators] been properly handled? What will happen next?
Chuan: We discussed this matter for about three weeks before it erupted. At the end we had to conclude that this was the best way out because the law did not give us any other option. We realised that it would have some negative effects. But taking a long-term view, we believed that it would raise the stock market to international standards.

We realise that investors still behave like gamblers. They are not interested in dividends. They probably don't even know what businesses the companies are involved in; they don't know what dividends are paid. It's only day-to-day trading.

Q: You're not a shareholder or a punter yourself?
Chuan: No.

Q: Have the lessons of May been learnt, or is Thai politics back to the bad old ways?
Chuan: After May I said before anyone else that we should not believe that Thailand had suddenly become democratic just because Gen Suchinda [Kraprayoon] had gone. I was the first to remind people. I don't believe that a single event will change people's attitudes completely.

We have to accept the reality. The politicians are the same group of people, mostly old faces. There are only a few new faces. The attitudes are the old attitudes. But I consider us to have made one step forward.

Q: Will the armed forces now stay out of politics? Will you make sure that they do stay out of politics and business?
Chuan: In my opinion, the military are more likely to stick to their own role than to play a political role as they did in the past. There are two reasons. First, I, as the government, will not make the military my own personal power-base...

Second, the present military commanders are more democratically-minded than previous commanders. Some laws have been changed so that military decisions will have to receive the approval of the cabinet.

Q: Are any other measures being taken to ensure that they do not get involved? The recent incident in Ranong [in which drunken soldiers are alleged to have attacked a police station after a brawl] shows there are still problems.
Chuan: It will take time for everyone to accept that the military should be professional. I cannot be sure that such an event will not happen again.

I said on the day we handed over our policy to officials all over the country – I really did – that if soldiers, police, border patrol police and defence volunteers, and so on, do not cause trouble, then the country's problems will be greatly reduced.

I come across these problems frequently. Restaurant owners often complain to me that soldiers get drunk and smash the place up. So problems arise because people get drunk. It will get better. It will get better, I'm confident.

Q: Is there a danger that your efforts will be undermined by disagreement and instability in the coalition?
Chuan: Coalitions will always have these problems. I've been in many coalitions, so I'm prepared to face the obstacles. But ultimately I believe we'll be able to maintain the coalition so that it follows the principles of the parties who got together to draft this common policy statement. It may be slow, too slow for some people, but I think we can continue this way.

I try to bring everyone in to participate in decision-making according to the democratic process... The things that we have said all along are intended to show the public the principles that this government adheres to when it rules the country... The people are the most important factor in preventing other powers from returning.

Q: Existing laws on everything from traffic to the environment to prostitution are not enforced. So why introduce new laws?
Chuan: It is true that Thailand's weakness is in law-enforcement... Enforcement is a real problem.

Q: On the other hand, many Thais would argue that there is not enough new legislation, except during the Anand governments, to meet the needs of a modern state. The frequency of Parliamentary meetings has been doubled, but only from once to twice a week. Is that enough?
Chuan: In Khun Anand's time, an immense amount of laws were passed because there was no opposition. Those laws are all the problems of the present government. Passing laws is dead easy when there is no opposition. But when the time comes to put them into practice, they all cause problems... They did not think through whether the laws would work in practice.

Q: Should the police be paid more so that they don't take bribes and do enforce the law?
Chuan: That's more of an excuse made by the people who take bribes... They should be paid more, but in this economy other officials are also underpaid. And in comparison to most people, officials in all branches of the bureaucracy earn more. People struggle and are willing to pay to get their children into the bureaucracy.

FOREIGN RELATIONS

Low profile preferred

THAI leaders are not much given to strutting around the world stage; not for them the role of defender of the Third World played by Dr Mahathir Mohamad of Malaysia, or that of economic guru played by Mr Lee Kuan Yew, Singapore's elder statesman.

Apart from the occasional dabbling in the affairs of their neighbours in Burma and Indochina, Thai governments usually prefer to concentrate on domestic affairs and keep a low international profile.

The spotlight aimed at Thailand in the past few weeks following the refusal of the Khmer Rouge guerrilla group to comply with the Cambodian peace agreement was therefore particularly unwelcome.

As the United Nations Security Council considered the possibility of imposing economic sanctions against the Khmer Rouge, it immediately became clear that Thailand would have to bear most of the burden if sanctions were actually to be enforced.

The Khmer Rouge is thought to earn at least $100m a year by selling gems and tropical timber from its strongholds in northern and western Cambodia to Thai businessmen, who in turn sell oil and other supplies to the guerrillas.

Thai officials squirmed at the prospect of sanctions. They not only pointed out that a trade embargo would be difficult to enforce but made it plain that they hated the whole idea of putting pressure on the Khmer Rouge.

Such an anti-sanctions policy was popular in the border provinces which profit from the trade with the guerrillas.

But Thailand's support for an extremist organisation reckoned to have killed 1m Cambodians between 1975 and 1978 did not look good abroad – or in Bangkok, where the civilian coalition government had come to power in a September election in the aftermath of a middle-class, pro-democracy uprising.

To make matters worse Thai politicians were accused of reneging on pre-election promises to reform Thailand's pragmatic and mercenary regional foreign policy.

Liberal voters had hoped that the five-party coalition would voice a principled support for democracy, human rights and the need to protect the environment which is being wrecked by indiscriminate logging and strip-mining of gems in Cambodia. They had hoped that the new government would take a firm stance against the military junta in Burma and the Khmer Rouge in Cambodia. In fact, not much has changed.

Khmer Rouge leaders have close relations with Thai army generals

"Each political party has its own foreign policy platform, but once they join together into a coalition it's necessary to see how to merge the policies," Mr Prasong Soonsiri, the Thai foreign minister, told the Financial Times in an interview. "Many issues which the individual parties were advocating during the campaign may have to be adjusted for the sake of unity."

That did not mean there would be no shift at all, Mr Prasong said. "We notice that the world is attaching greater importance to issues such as human rights, democracy and the environment," he said.

"Thailand has also emerged from a fight for democracy... We also wish to see our neighbours in a position which is accepted by the international community – but we are not in a position to manage their affairs."

Mr Prasong, a former air force squadron leader and national security chief, is all too aware that his ministry's conduct of foreign affairs is limited by the continued influence of the armed forces, especially on the borders with Burma and Cambodia.

Thailand is a signatory of the Cambodian peace accord, but the Khmer Rouge leaders now flouting the agreement have long had close relations with Thai army generals, and the Thai officers on the frontier have profited from commissions on the informal trade with Cambodia.

Illegal logging on the Burmese border has intensified: Liberal voters had hoped that the coalition would voice support for the need to protect the environment which is being damaged by indiscriminate logging

The Khmer Rouge, furthermore, is regarded by Thailand as a useful counter to the influence of Vietnam, Thailand's old rival, which invaded Cambodia in 1978, overthrew the brutal Khmer Rouge regime and installed the present Cambodian administration.

Thailand takes an equally ambivalent attitude towards Burma, supporting the ruling State Law and Order Restoration Council – which has been shunned by much of the rest of the world – at the same time as tolerating Burmese ethnic insurgent groups fighting the Rangoon regime from bases on the Thai border. Western diplomats can therefore be forgiven for suspecting that Thailand still prefers to see its neighbours unstable and divided than to risk the prospect of strong, united and prosperous nations on its borders – although it does seem to have made its peace with Laos.

The question is whether such a policy is adequate for the 1990s. It favours army timber smugglers and small-time frontier traders, but may weaken the prospects of legitimate Thai businesses and investors in the region. Thailand, which advertises itself as a regional hub for Indochina and Burma, appears to be losing out to commercial rivals such as Singapore, Taiwan, Hong Kong and Malaysia in the fast-developing economy of Vietnam.

Too much concern for frontier traders, as Mr Prasong appears to realise, may also distract attention from the vital task of attracting foreign investment to Thailand, fighting trade protectionism and securing access for Thai exports to the country's principal markets in the US, Europe and Japan.

"I came into office as minister of foreign affairs at a time when the world was changing rapidly; in particular the world has seen a move from military confrontation towards economic confrontation," Mr Prasong said. "The government has a duty to try to solve the obstacles arising from the increasingly competitive international scene.

"We see increasing competition in economic matters, in trade, and competition to secure markets and capital."

Victor Mallet

Peter Ungphakorn examines an aspect of Thai politics

Making a meal of quotas

Dr Narongchai Akrasanee is one of Thailand's more well-known economists-cum-businessmen. Educated in Australia and the US, he was the youngest dean of the economics faculty of Thammasat University in Bangkok. He made his name as a specialist in industry and trade.

Dr Narongchai is now head of a finance and securities company called GF. Last year, he was the special envoy of the then-prime minister, Mr Anand Panyarachun, negotiating regional free trade among the six members of the Association of South East Asian Nations. In September, Dr Narongchai was almost appointed a minister in the new government. "Almost" because at the last minute he fell foul of something he, as a free trader, has spent much of his working life arguing against: quotas.

Foreigners frequently complain that Thai politics is impossible to understand. Unpronounceable Thai names do not help matters and it does not help that so many of the "anti-military" political leaders have military rank. But often it is the behaviour of politicians that is difficult to understand, as if some code has to be cracked. One set of codes deals with quotas, around which Thai politics sometimes appears to revolve.

Dr Narongchai was to have been appointed to the Cabinet by Gen Chavalit Yongchaiyudh, leader of the New Aspiration Party, the second-largest in the coalition. Thai coalition cabinets are formed by quota and under the present constitution, governments are allowed a maximum of 44 ministerial positions. These are shared out in proportion to the size of the coalition parties.

After the election in September, the New Aspiration Party was given 11 cabinet seats. When word leaked out that Dr Narongchai was among the non-elected appointees that Gen Chavalit was proposing to nominate, the party's MPs threatened a rebellion. One more cabinet seat given to an appointee, no matter how able, would mean one less for an MP. Gen Chavalit had to yield; an elected MP was picked instead.

The selection of MPs to fill portfolios is often bas[illegible] on arithmetic

The quota system does not allow much flexibility. The selection of MPs to fill those portfolios is often based on arithmetic. MPs of the Democrat Party, the largest in the present coalition, say they are virtually guaranteed a cabinet post if they can head a team of candidates that has made a clean sweep of all the seats available in a province or in a multi-seat constituency.

The previous elected government came to pow[illegible]r in March. No sooner had the [illegible]abinet posts been announced [illegible] Mr Banharn Silpa-archa, secretary-general of the Chart Thai Party – at that time ranked second in the coalition – told reporters that his party would periodically reshuffle its ministers so that all senior members could have a turn in the Cabinet.

It did not, apparently, occur to Mr Banharn that the prime minister, Gen Suchinda Kraprayoon, might want to be consulted. Not even a prime minister who was in power as a result of leading a coup. Reshuffling the Cabinet within the Chart Thai Party quota was an internal affair of the Chart Thai Party.

This adherence to quotas and "fair shares" is supposed to mean objective selections that avoid favouritism. Of course it does nothing of the kind, and it contrasts starkly with the way most Thais conduct their private lives.

No group of friends or associates would dream of having a meal and dividing the bill into "fair shares". Emphasis on generosity dictates either that the most senior or most wealthy pays the bill or members of the group informally take turns to pay.

Quotas continue to play a role once ministers have been appointed. A commerce minister is in charge of allocating export quotas for tapioca and garments. An agriculture minister's responsibilities could include fertiliser procurement and sales quotas. A finance minister can decide which foreign banks will be in the next batch allowed to open Thai branches.

These quotas keep many – but not all – ministers busy. There is nothing they enjoy better than deciding that conditions have changed and therefore the method of allocating quotas has to be changed as well. Naturally, every time the method is changed there are winners and losers. The stakes can be very big.

Quotas mean money: "quota-rent" according to the jargon. Ministers who control quotas can become indispensable financiers of their parties.

One interesting case of quota-rent in Thailand involved taxi licensing. For such a prosperous city, Bangkok had, and still has, some of the most decrepit cabs in the world. But because the numbers were restricted and owning one was still profitable, licence plates were bought and sold for as much as Bt600,000 each; the plates cost more than the taxis themselves.

Earlier this year, the Anand Panyarachun government, an enemy of quotas, liberalised taxis. Only certain minimum requirements have to be met and commuters can now ride in brand new, comfortable taxis with proper meters, often paying cheaper fares than in the old quota-bound wrecks.

Tapioca is another example. The main allocation method for tapioca export quotas, a highly lucrative business because of the quirks of the EC's Common Agricultural Policy, is based on the amount of tapioca an exporter has stocked up. This is supposed to encourage exporters to buy more tapioca and raise farm-gate prices. It has also led to a great deal of cheating. One inspection a few years ago was supposed to have measured eight million tonnes of tapioca in exporters' warehouses: rather a lot of school puddings. Officials were transferred, questions were asked in parliament, and former ministers are still fighting an official committee's ruling that they were "unusually rich", a ruling that led to the seizure of their assets. Unwittingly therefore, French farmers who insist that the EC limit tapioca imports have played their part in Thai political power struggles.

The government of Gen Chatichai Choonhavan was dubbed 'the buffet cabinet'

Some ministries control more quotas than others and the politicians struggle to gain those with most quotas. But once they have acquired cabinet quotas, the ministers tend not to interfere with their colleagues' activities.

The government of Gen Chatichai Choonhavan, who was overthrown in last year's coup, was dubbed "the buffet cabinet", a suitably modern expression in a country where the word for "eat" is slang for being on the take. In the age of double-digit growth, there was plenty for everyone. In political terms, quotas actually meant a kind of free trade, a free-for-all.

The present Cabinet has its share of rent-seekers but the experience of the past two years and the frugal appetite of Mr Chuan Leekpai, the prime minister, could curtail the buffet.

Bangkok's infamous traffic jams very soon bring the air passenger rapidly down to earth *Picture: Terry Kirk*

The flourishing and congested economy has created the need for infrastructure investment *Picture: Terry Kirk*

Peter Ungphakorn takes a look at modern Thai capitalism

Beware of pitfalls for the uninitiated

THE experience of arriving at Don Muang, Bangkok's international airport, typifies modern Thailand and some of the pitfalls that await the uninitiated.

The international terminal was modernised in the late 1980s and some construction is still going on. Because of the rapid expansion of tourist and business traffic, Don Muang is already becoming congested and a new airport is being considered at Nong Ngoo Hao, south-east of Bangkok.

Nevertheless, arrival can be a pleasant experience in comparison to other airports in the region. There are dozens of immigration counters and officials vigilantly watch the queues. Whenever lines start to lengthen, extra officers swiftly appear and more counters are opened.

Luggage arrives on the carousels with refreshing speed, and passengers can pass through customs within minutes. Signposts point to the counters of the two limousine companies operating shuttle services between the airport and the city centre. Just in case jet-lagged passengers miss the signposts, uniformed staff offer a helping hand, sometimes a little too aggressively.

Private sector competition, friendly Thai service and a desire to make life comfortable for foreign visitors all help to convey the customer swiftly out of the terminal and onto the Vibhavadi Rangsit Highway.

Only then do Bangkok's infamous traffic jams, worsened by the construction of a second-storey toll-way, bring the passenger rapidly down to earth.

What the first-time passenger to Bangkok probably does not know is that there is a third taxi service into the city. There are no signposts and no official guides.

You should neither head straight out of the building, nor turn right along with the tour groups, nor go to one of the limousine counters. Instead, you have to turn left outside the customs hall, walk through the friends and relatives waiting to greet arriving passengers, and report to an official counter.

The first-time passenger probably does not know that there is a third taxi service into the city

You can then board a regular taxi, now more and more frequently a brand-new, comfortable cab, and travel into Bangkok without the luxury of the limousines but at half the cost.

This, too, is the result of modernisation. A closer look at its background reveals much more about the nature of Thai capitalism and the complexity of doing business in a country where enterprise is not always as free as it seems.

Don Muang airport is also the site of the Royal Thai Air Force headquarters. Between the runways, officers and their friends can be seen playing the greens and fairways of the air force's golf course. The head of the Airports Authority of Thailand, officially a separate state enterprise, is traditionally an air force officer.

"We'll always need the assistance of the air force," executives of the authority assert frequently, even after the anti-military protests in May and such reforms as the reshuffle at the top of Thai Airways International.

The third taxi service used to be a totally illegal racket, apparently controlled by middle-level air force officers and military police. The drivers were often moonlighting junior officers who paid bribes to the controllers. Proper taxis were not allowed into the airport, but some managed to gain entry also by paying bribes.

The limousines at that time were a monopoly of Thai Airways International, also dominated by the air force.

Locals, unwilling to pay either the illegal operators or the exorbitant limousine fares, used to drag their luggage to the Vibhavadi Rangsit Highway in order to hail a regular cab.

Public opposition to this set-up and its association with crime forced the authorities to install a more open system that would conflict less with such tourism promotions as Visit Thailand Year in 1987.

Vested interests prevail, however. Thai Airways' limousine monopoly was broken with the introduction of the second service but the new concession was awarded to a company run by politicians with close connections to some air force officers, a fact that aroused considerable press criticism.

The total absence of any information in the arrivals hall about the regular taxi counter is an indication of the protection the Airports Authority is willing to offer the two limousine services. Modern Thai capitalism consists of competition, openness and a more streamlined bureaucracy in some agencies, blended with influence, personal connections, corruption and red-tape.

Public opinion and the desire to attract foreign investors and tourists have led to more modern practices. The Board of Investment offers faster, one-stop processing for new companies. Telephones are becoming easier to obtain without the customer always having to pay a hefty bribe. The new taxis really do operate with their meters running, at least part of the time.

But the Customs Department remains one of the most corrupt in the Thai bureaucracy and the Immigration Department is a headache for many foreigners. An archaic aliens' business law reserves for Thais (and Americans under a special treaty) such occupations as hairdressing, alongside professions such as accounting. Changes of government or cabinet reshuffles tend to swing the fortunes of government projects back and forth with equal frequency.

Foreign investors are usually advised to form joint ventures with local partners

Foreign investors are therefore usually advised to form joint ventures with local partners who know the terrain well. Participants in trade missions are advised to give themselves enough time to learn about Thailand so that they are not misled into thinking this is another Malaysia, Taiwan or Italy.

A typical battle is being waged by Lavalin International Group of Montreal. Since 1988, Lavalin has been trying to persuade the Expressway and Rapid Transit Authority (ETA), a state enterprise under the Interior Ministry, that its light rail system with an advanced linear-induction motor technology is ideal for an elevated railway in congested Bangkok.

Lavalin's fortunes rose and fell as successive administrations – including successive shifts of power in the ETA – first favoured then cast doubt on Lavalin's bid. The technical side was not straightforward. Lavalin was offering technology and construction specifications that in some circumstances were radically different from the more traditional heavy rail technology of its rivals.

At the same time, technical specifications were only part of the story. The battle between Lavalin and its competitors – which included Germans, Australians and Japanese – hinged on individuals both in the Interior Ministry and in the Cabinet. Some favoured Lavalin. Some favoured the others.

While Thai governments came and went, Lavalin itself was taken over by another Canadian company, UTDC.

At the critical moment of the final decision, power was in Lavalin's favour. It led to the signing on February 7, 1992, of an agreement for Lavalin to build what has become known as "Skytrain". In July, the government declared the agreement null and void because the Canadians had failed to keep a commitment on raising capital for the project.

The Canadians say the problem is a technical misunderstanding arising because another partner in the project was also taken over. The details are convoluted, but the upshot was that the government, at that time under the premiership of Mr Anand Panyarachun, scrapped the project. Instead, a new state enterprise was set up to handle the capital's rail projects directly.

The consortiums that bid against Lavalin have long given up the fight. But Lavalin's Thai representatives have tenaciously kept up the pressure. If Lavalin were not going to build and operate the new railway, at least it could sell the technology – and some trains – to the new state enterprise.

Two recent developments seem to have improved Lavalin's chances. The September 13 general election brought a new government to power and with it new Interior and Transport ministers. The Expressway and Rapid Transit Authority has also seen another reshuffle which some observers say will swing the balance back in Lavalin's favour.

A smooth ride can never be guaranteed, however. Two other rail projects for Bangkok are also being built and a German company recently proposed building an underground railway, something few ever thought possible for a city that is essentially built on delta swampland.

The Lavalin story is a repeat of countless others. Leyland of Britain and Van Hool of Belgium spent years trying to sell buses to the Bangkok Mass Transit Authority, yet another state enterprise supposed to look after the welfare of the city's commuters.

Neither made a single sale – the Japanese and South Koreans waited quietly while the Europeans battled and then shared out the lower-priced spoils when a decision was eventually reached to replace almost the entire fleet of buses.

Social changes are slowly forcing changes in the way business is conducted

And yet the booming and congested Thai economy has created both the purchasing power and the need for infrastructure investment. The accompanying social changes are slowly forcing changes in the way business is conducted and in the way the bureaucracy works. And companies such as Lavalin show that tenacity, suitable products and skilled partners do allow non-Asian companies a chance in a country that often seems distant and mysterious.

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THE PROPERTY MARKET

Brighter outlook for the bargain-hunters

Lower values and reduced interest rates have created opportunities for investors, writes Vanessa Houlder

Is this the time for investors to move into the property market in the UK? Counter-cyclical strategists – people who invest against prevailing trends – can take heart from opinion polls that suggest that confidence in the property industry has never been so low. At the same time, property yields have rarely been so attractive compared to those of equities and bonds.

More encouragement can be taken from the impact of interest rate cuts and the devaluation of sterling since mid-September following its exit from the European exchange rate mechanism. Since then, property shares, which anticipate movements in the underlying property market, have risen by 31 per cent, nearly twice the rise of the rest of the stock market.

The cut in UK interest rates by three percentage points since Black Wednesday has made many property acquisitions self-financing. Entrepreneurs have found they could borrow money for five years fixed at, say, 8¾ per cent to buy a good quality property with a yield of 10 per cent.

The cut in interest rates has stimulated a flurry of investment deals, particularly in the City of London. German investors have been particularly prominent following the devaluation of sterling. The latest such deal was this week's £73m sale of MEPC's office building in Finsbury Circus in the City to DIFA, a German property fund, on a yield of 8.6 per cent.

"It is the first time for many years that quality property of this calibre could be acquired at a level which is presently self-financing," said Mr John Rigg, investment director of Debenham Tewson Chinnocks, which arranged the deal.

The case for buying property largely rests on the unprecedented shift in values in recent years. UK office values have now fallen to half their value at the peak of property values three years ago.

The gap between property and equity yields, which was negligible in the early 1980s, has now widened: property yields are now double the yields on equities. At the same time, yields on property now stand at an unprecedented 1.3 points above gilts, according to the Investment Property Databank, a research company.

Interest rate cuts have stimulated a flurry of deals, particularly in the City

Property yields are also well above short-term interest rates. This has happened only twice before in the past 25 years. Both occasions – the Barber boom of 1971 and the recovery from the 1974-75 property crash – were auspicious for the property market.

A historical view can also provide a case for property as a means of diversifying pension fund portfolios, which some actuaries believe are now overexposed to equities.

"Over the past 25 years, property has produced a far better return than gilts and has not lagged far behind equities. Of the three major media [property, gilts and equities], returns from property have also been the least volatile," said Mr John Hetherington, an associate at Chesterton, property adviser. "The underlying reason for avoiding property is that recent history remains more in the mind than that of the further past."

But these arguments are not conclusive.

First, property yields are hardly inexplicably high. Property will have no growth potential so long as supply exceeds demand. Indeed, rents are still falling. Although investors expect retail rents to bottom out in 1993, they expect industrial rental values to fall by a further 4 per cent over the next 12 months and office rental values by another 8 per cent, says IPD.

Second, lower interest rates do not guarantee improved performance. This point, which is already evident from the market's lack of response to a fall in interest rates from 15 per cent to 7 per cent since 1990, is underlined by the absence of a correlation between base rates and the performance of the property sector over the past 20 years.

Even the striking coincidence between the property upturns of 1971 and 1977 and the decline of short-term interest rates below property yields may be misleading. Kleinwort Benson, the investment bank, points out that with high inflation, real interest rates were negative in 1971 and 1977. Real interest rates are unlikely to fall below 2 per cent in the short term even with a much looser monetary policy, it says.

Investors from Germany have been very prominent following sterling's devaluation

Moreover, the decline in short-term interest rates has not impressed institutions, which unlike more entrepreneurial investors, tend to compare property yields with gilts. Gilt yields have fallen only modestly in recent months, thanks to concern about inflation, the public sector borrowing requirement (PSBR) and a drying-up of interest in UK gilts by overseas investors.

When IPD conducted a survey of institution investors, it found that hopes of a widespread and rapid fall in yields had evaporated. "The average estimate now is that only retail yields will fall significantly in the next 12 months, by about half a percentage point," says IPD.

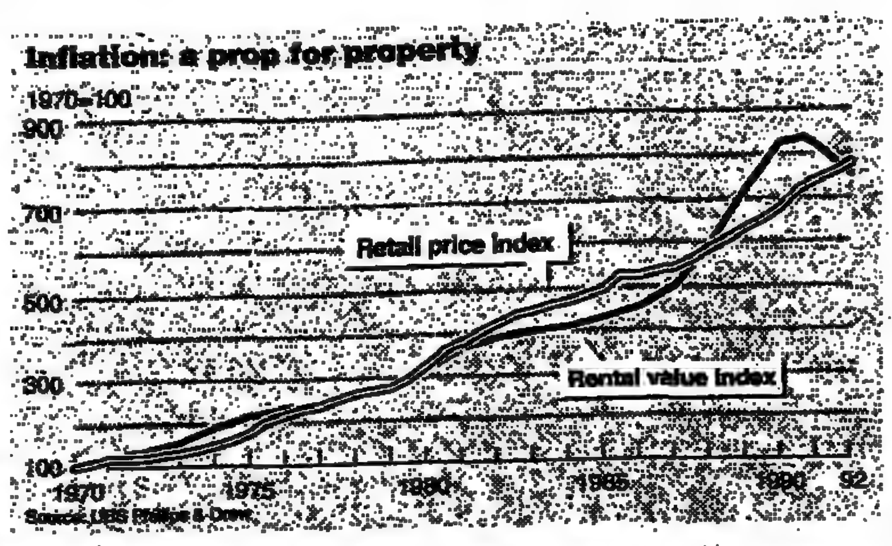
But perhaps the most sobering argument against assuming that falling interest rates will help the property market is that asset values respond less to the cost of money than its availability. There is little reason to believe that the supply of credit to the property industry will expand while the banks are nursing so many bad property loans.

Moreover, institutions are unlikely to increase their allocation to property. Property has lost its reputation for stability, it has shrunk to a minimal share of most pension funds' portfolios and the institutions' cashflow is likely to be directed to gilts to finance the PSBR.

For all that, there are pockets of demand in the property industry. The oversupply in the industry coupled with the conservatism of lenders and investors is funneling demand into the relatively few buildings with good tenants and long leases. At the other end of the scale, many buildings – perhaps as much as half the market – are virtually unsellable.

With such a fragmented market, the case for buying property is neither universal or overwhelming. Nonetheless, the fall in property values and financing costs has created better opportunities than the market has seen in years.

Inflation: a prop for property



Source: UBS Phillips & Drew

STERLING'S devaluation and lower interest rates in the UK have raised the possibility that rising inflation will come to the rescue of the industry, as it did after the property collapse of the early 1970s. Over the long term rental growth has matched the rate of inflation, averaging 10 per cent a year since 1970.

Inflation pushes up construction costs, which has a knock-on effect on values. It also erodes the real value of debts and reduces real interest rates, thereby depressing the sale of properties by over-stretched companies. Furthermore, inflation enhances the standing of property compared with bonds for institutional investors.

But the benefits of inflation cannot be taken for granted. Even if retail prices rise, this may not lead to asset inflation, which depends on weight of money moving into property and forcing up prices. The inbalance between supply and demand is likely to blunt the impact of inflation on rental values for several years.

Moreover, it is possible that higher inflation will necessitate an increase in interest rates before the fundamental problems of the market have been resolved. The risk is that this would stifle occupational demand – ultimately the only real saviour of the property sector.

Changes in property value

Properties (%)	Retail		Office		Industrial		All	
	Year to Oct 92	Oct 92	Year to Oct 92	Oct 92	Year to Oct 92	Oct 92	Year to Oct 92	Oct 92
Rental growth	-2.0	-0.4	-15.8	-2.1	-8.3	-1.3	-8.6	-1.2
Capital growth	-1.5	-0.2	-14.0	-1.3	-6.8	-0.8	-7.3	-0.7
Total return	6.1	0.4	-6.2	-0.5	2.4	0.0	0.7	0.0
Current yield levels	9.0		10.3		11.3		9.9	

Source: IPD monthly index, Investment Property Databank

New breed on board

Andrew Jack looks at the Cadbury Committee's emphasis on the role of non-executive directors

A ticking timebomb was placed under the tables of corporate boardrooms across Britain this week with the publication of the final report of the committee on the financial aspects of corporate governance, chaired by Sir Adrian Cadbury.

At the heart of the report is a series of guidelines which will require fundamental change in the significance and responsibilities of non-executive directors.

But while many businesses and professional bodies welcomed the conclusions, some are beginning to question whether implementation of the recommendations will be more evolutionary than explosive.

The Cadbury report places great emphasis on the influence that needs to be exerted by independent, non-executive directors. If all goes to plan, the days of sinecure appointments will be banished, as will the era of directors appearing once a year for a comfortable doze in the boardroom after lunch.

Perhaps the most serious concern about non-executives which is raised by the Cadbury Committee is whether there is an adequate supply of qualified, independent people.

Colin St Johnston, managing director of Pro-Ned, an organisation which promotes the role of non-executives, estimates that 95 per cent of quoted companies now have non-executives on the board, against 50 per cent 10 years ago.

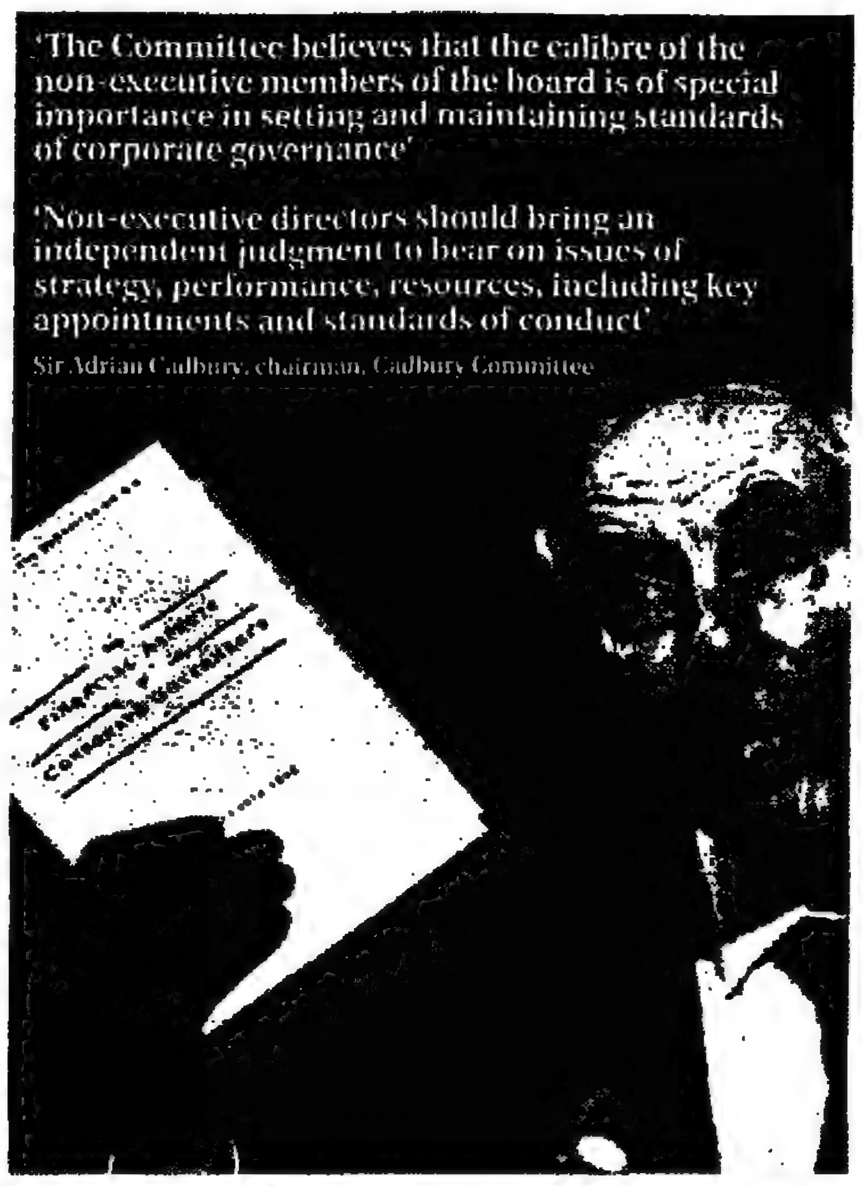
Theoretically, there is no shortage of supply of non-executives. Pro-Ned maintains a list of some 1,600 potential candidates. A number of executive search firms also fill gaps in the market.

But there is a question over the quality of these candidates. St Johnston says that while financial skills are well represented, those with marketing experience or foreign language skills and overseas experience are limited.

More important is the fact that few companies are turning to external sources to recruit. A recent study by Pro-Ned and the Stock Exchange showed that most are still appointed via what Pro-Ned disapprovingly called the "Old Boy Network". Only about 30 per cent use a formal search process to identify candidates and as few as 23 per cent have a written job profile to help in selection.

The more demanding the calls on non-executive directors, the smaller the pool from which to draw will be. Sir Adrian is confident that there are many outside the well-trawled members of main boards who could be employed, including those who sit on divisional boards and individuals drawn from the public and the non-profit sectors.

Yet many names have remained, unused, on Pro-Ned's lists for years.



This may indicate a disappointingly low turnover of non-executives, a reluctance to use more objective selection procedures, or a lack of quality of those currently available.

The Cadbury recommendations clarify the roles of such directors, but a distinction must be drawn between different parts of the report. One section gives a code of "best practice". All quoted companies will be required to make a statement in their annual accounts that they comply with the code, or identify and explain any areas with which they do not.

The code requires non-executives "of sufficient calibre and number" to provide significant weight in the boardroom. They should be independent of management, appointed for specified terms and selected through a formal process.

But many of the stringent Cadbury recommendations fall into a separate series of supplementary recommendations on "good practice". These include the much-publicised suggestion that there should be a minimum of three non-executives on every board.

They also include a number of important points, such as the need for at least one meeting of the audit committee each year with the auditors and without any executives present, to discuss unresolved issues of concern.

While some aspects of the formal code will be scrutinised by a company's auditor to reassure shareholders that they are being followed, many of the more subjective parts of the code, and none of the good practice guidance, will come under the auditor's gaze.

That is not to say that many of the recommendations will not be followed. The code has been designed to reflect existing best practice. A number of companies are already responding to the heightened interest in the subject.

But one of the most revealing aspects of the final Cadbury report is the changes which distinguish it from the draft issued in May. The press release accompanying the report listed a number of changes introduced as a result of consultation in the last six months, but some important dilutions were given less emphasis.

Sir Adrian talks about a "clarification" of the role of non-executive directors, particularly regarding suggestions that they might be creating a "two-tier board", rather than forming part of a single, unified structure.

That came in response to complaints from the Confederation of British Industry and the Institute of Directors about casting non-executives divisively in the role of policemen of the board.

In fact, there is a substantial diminution of the role and status of non-executives. Gone from the final version is mention of the need for a non-executive representing shareholders' interest, for instance.

It is true that all directors have the same liability under the law. But equally the non-executives are intended to provide some degree of independent scrutiny. That has to imply the existance of a two-tier structure and may be no bad thing, as a submission to the Cadbury Committee from the Institute of Chartered Accountants of Scotland pointed out.

Without this additional responsibility attached to non-executives, the only external scrutiny comes directly from shareholders – particularly the institutions – who have been widely criticised for their lack of activism up till now.

All this suggests it will be many years before Cadbury's recommendations are in place in the majority of British companies.

Christopher Lorenz

Life's compensations

TUCKED away in this week's Cadbury Committee report on British corporate governance is a little-noticed paragraph. It reads like a clause from the US Freedom of Information Act. It concerns board remuneration, and starts: "The overriding principle ... is that of openness. Shareholders are entitled to a full and clear statement of directors' present and future benefits, and how they have been determined."

Barely seven weeks ago a similar declaration was made by the chairman of the US Securities and Exchange Commission about what Americans persist in calling executive "compensation".

Introducing a set of changes in the SEC's rules on the disclosure to shareholders of such "compensation", the commission's chairman said that disclosure should be "clear and complete".

But there the similarities end. For the six-line clause on executive pay in the Cadbury "Code of Best Practice" is not only far from full by US standards, but also somewhat less than clear.

By comparison, the SEC's "fact sheet" about its new rules on compensation disclosure runs to three full pages, backed up by a sheaf of charts and explanatory notes.

The real extent of the yawning gulf between the two nations' interpretations of "full", "clear" and "complete" becomes evident from the content of the two bodies' actual provisions.

In the SEC's case, these are fully-blown regulations, but in Cadbury's they are mere recommendations – albeit reinforced by the threat of bad publicity and shareholder pressure if companies fail to conform. From January US companies will be required to include in proxy statements to shareholders a set of tables, notes and reports. They include:

- The "compensation" of the chief executive, broken down into seven main categories for each of the past three years: salary; bonus; a catch-all category of five types of other annual compensation (including perks and tax payment reimbursements); awards of restricted stock; awards of options and stock appreciation rights; payouts under long-term incentive plans; and, finally, a second catch-all category of five other types of compensation, such as accrued earnings on deferred pay.

Including the itemisation required within certain notes, some highly-rewarded executives could have to declare a dozen separate aspects of compensation.

And that is just the start.

- Precisely the same breakdown must be shown for the four other most highly-paid senior executive officers (if they earn more than $100,000 a year).
- All this information must be displayed in a large summary table, with each of the five executives named. Other more detailed tables are also required, covering employment contracts, termination agreements, various possible eventual values of options and stock appreciation rights, plus other items.
- The compensation committee must provide a detailed discussion

Cadbury's "softly, softly" approach is one reason why companies which do not conform to the code must now move very rapidly to do so

of the relationship between executive compensation and corporate performance.

I could continue this description at the same length again, but will desist. Worried parties should contact the SEC direct.

The purpose of its new rules, along with changes introduced early this year governing voting at company annual meetings, is to give shareholders more influence over the level and structure of executive pay packages.

In comparison, the pay section of the Cadbury Code looks puny. It merely recommends disclosure of directors' total "emoluments" (again, an archaic word), but as a group rather than individually. As at present, the only identifiable individuals for whom any detail must be given are the chairman and highest paid UK director, who are often the self-same person.

The code does say that, for these individuals and for the board as a whole, a breakdown should be given between salary and performance-related elements and that the basis for performance-measurement should be explained. But no level of detail is prescribed for either of these. Nor is the controversial subject of stock options mentioned in the code.

To anyone other than a self-interested British company director, the obvious temptation from the foregoing might be to ridicule Cadbury's efforts. But that would be wrong for two reasons.

First, the committee's recommendations are well ahead of actual British corporate practice. According to Monks Partnership, a leading remuneration consultancy, only eight of the companies in the FTSE-100 Index comply wholly with Cadbury's pay guidelines (which also include an indication of the existence and composition of a remuneration committee). Barely a third explain incentive payments in any way; only a fifth show the performance element in total board emoluments; and only an eighth show it in those of the chairman or highest paid director.

In other words British disclosure practice is antediluvian compared with that of the US.

The second factor is that the whole effectiveness of the Cadbury Code – of which board pay is only a small part – relies on the creation of a consensus among most companies that its clauses are fair, sensible and practical. At this stage, to have threatened three or four more directors per boardroom with disclosure of their individual pay arrangements would not have been exactly tactful. Later, perhaps, but not now.

Cadbury's "softly, softly" approach is one of several reasons why companies which do not conform to the code must now move very rapidly to do so. Otherwise they will bring on themselves – and everyone else – a much tougher and regulatory regime.

Since Cadbury issued its draft report in May, the climate of London financial opinion has begun to swing away from gentlemanly but ineffective self-discipline, towards official regulation.

In any case, fuller pay disclosure is in a company's interest. The more open it is, the less room there is for misunderstandings – or for justifiably bad publicity – when shareholders and the media find out. But time is running short for voluntary action.

Cashless society in Denmark

Ole Christensen set off for work in the Danish town of Naestved without a kroner in his pocket, but still managed to park his car on a meter, buy lunch in the canteen, phone his wife from a call box and wash his shirt in the launderette on the way home.

Instead of cash, Ole was carrying *a new plastic prepayments card*, which can be used for a wide range of small transactions. His town is the pilot site for the card, which the operating company, Danmont, claims is the most advanced in the world. The service should become accessible throughout Denmark by March. Henning Jensen, managing director, is already receiving international inquiries.

Danmont differs from existing prepayments cards because it is an open system, in which a card from any issuer can be used to buy services *from any participating supplier*.

Eight banks and the local telephone company, KTAS, *have so far* issued 18 *different designs* of card with a value of £10 to £30. They contain a microchip which deducts the value of each transaction and credits the relevant supplier. Rechargeable cards should be available by 1994.

Henning Jensen says the cashless society is working well in Naestved. Some 4,000 cards have been tested in launderettes, food and drink vending machines, parking meters and public telephones.

The system is geared to individual transactions averaging under £1, which do not require a receipt. Danmont – set up just over a year ago by KTAS and Danish Payments Systems, the direct debit card company – acts as a central clearing house for payments.

For the cost of installing a terminal, and a flat fee of £125 a year, suppliers get a secure and reliable method of charging which is vandal-proof. Siemens is supplying the chip used in the cards and several Danish suppliers have developed terminals.

Singapore will start testing a common stored value card next year, and Atlanta plans one for the 1996 Olympic Games. Meanwhile, Danish equipment manufacturers are helping to shape standards for an eventual common European system.

Margaret Dolley

Films on CD may soon replace traditional videos, but far more is in store for viewers, writes **Michiyo Nakamoto**

Playing it again

Humphrey Bogart died 35 years ago, but he could soon return to the entertainment world as the star of a new film on compact disc.

New developments in digital technology promise to make it possible to revive past Hollywood stars such as Bogart from old films and put them in new ones.

At this stage, Hollywood studios are cagey about their plans for this rapidly advancing technology. But by turning Bogart's image from the films in which he starred into digital signals, which can then be manipulated, they could make the star of Casablanca do things on CD that he never did on celluloid.

That, however, is only one of the *creative possibilities offered by digital* video. It has the potential to do for images what digital sound on CDs has done for music – provide random access and the ability to make near-perfect copies. There will be no need for rewinding to get to a particular sequence. Nor will repeated viewing mar the image.

Intriguingly, films on digital video could have alternative story-lines, to be selected according to the viewer's taste, or different characters could be worked into the story. Imagine your favourite James Bond film with a new ending.

Whatever surprises emerge, video seems set to move into a new generation. For most consumers, video means products in analogue form such as cassette tapes and laser discs. While digital audio has been available to consumers in CDs for more than 10 years, it is only recently that work to digitise picture information has approached the commercial stage.

That is because there is so much more information in a visual image than in a sound recording. After conversion to digital signals, the image must be squeezed sufficiently for storage on a CD.

"The picture is compressed and blown up again, and the trick is to do this without people noticing," explains Simon Turner, head of the interactive systems group at the Philips Research Laboratories in Redhill in the UK.

Images have a compression factor of 133 compared with one of about four for sound; so video compression requires far more processing power than sound compression. At Redhill, where work to convert visual information into digital signals and compress it (known as encoding) has gone on since 1989, 10 minutes of full-screen video used to take three weeks of continuous processing with a mainframe computer.

But rapid advances in digital technology are bringing digital video closer to the desktop and into the living room. Philips, the inventor of the CD, has been working on

Humphrey Bogart in Casablanca: his career could be revived on digital video

the digitisation of video for the consumer market.

Next year, the Dutch group will bring out a device called a full-motion video decoder to be slotted into its Compact Disc-Interactive machine, a new type of home entertainment system the group launched last year at about £500. It enables users to play with audio, graphics, data, animation and photographs stored on CDs and viewed on their television TV screen.

When fitted into a CD-I machine, the FMV decoder – which will sell for about £125 – will enable digital videos to be viewed on TV, but not to manipulate them. CD-I sets incorporating FMV will also be launched in the near future.

The challenge Philips faced in developing full motion video for consumer use was to provide high-quality digital video at prices acceptable to the consumer market.

That meant putting the decoding function – the conversion of the digital signals into full motion video images that can be shown on the TV screen – on a single chip and reducing the cost of the decoder. That work has been carried out in close collaboration with Motorola, the US semiconductor and communications group.

Meanwhile, the encoding time has been substantially reduced and Philips expects to have a real-time encoding machine next year, which could encode 10 minutes of film in 10 minutes. Once the encoding and decoding hurdles have been overcome, the manufacturing of digital videos on CD will cost no more than audio CDs – about 50 pence.

But digital video is only one step towards the digitisation of visual images. Expectations that moving images will increasingly be digital have led companies in industries *from telecommunications* to computers and semiconductors to join forces in the Moving Picture Experts Group and agree an international standard for digital video encoding, known as MPEG-1. This will be followed by MPEG-2 for products with a higher data rate such as digital TV.

The quality of digital video based on MPEG-1 will depend to a large extent on the quality of the original source but should be at least as good as ordinary video tapes. Philips' demonstration videos using high-quality original source material look considerably better.

But Philips is nonetheless dependent on the studios to come up with software which does the quality justice and attracts consumer interest. Fortunately for Philips, Hollywood studios and TV broadcasters are keen to develop creative applications of digital video as another way to exploit the visual material they own.

George Lucas, of Star Wars fame, is one of the many producers looking at the creative possibilities of CD-I and full motion video.

Interest is also strong in the UK, where more than 20 studios are developing applications. Wildvision, part of BBC Enterprises, is working on a game in which a particular ecosystem is used as a backdrop to follow the adventures of animals living there. "We were immediately taken by the idea of interactive video," says Michael Bright, managing editor of Wildvision.

Philips expects to have 15 titles available in the spring with the launch of full motion video and many more to follow as work at various studios produces results.

While there are undoubtedly interesting ideas for interactive video, the big question is whether any will be good enough to spark enough interest in the new technology.

Without a few hot-selling applications, digital video could prove to be ahead of its time and the market too slow to produce the dividends Philips needs.

Worth Watching · Della Bradshaw

Teraflop takes on slower dinosaurs

To the uninitiated, a teraflop machine might sound like a dinosaur trap. To those in the know, it is one of the fastest computers around.

The CS-2, developed by Meiko of Bristol, can carry out 100,000 times as many instructions as today's most powerful personal computers or workstations in the same time span. The company envisages that the teraflop machine will be used for large database applications as well as the more traditional supercomputer applications such as weather forecasting.

The CS-2 achieves such speed because thousands of processors work in parallel – unlike conventional serial computers where each bit of data is processed consecutively. Meiko: UK, 0454 616171.

Writing on the wall for art thieves

A centralised database of works of art has been set up by a Palm Beach County businessman to help prevent the trade in purloined paintings.

Roger J Mealey believes the database will enable insurance companies and museums to ascertain whether a work is genuine or stolen. On registration by the owner, an image of the picture is digitised and colour scanned. Subscribers to the service then get access to the Sarte Collection records using a computer and modem. Sarte Collection: US, 407 881 8095.

Film makers put in the picture

With the eye-piece of a video recorder pressed against one eye it is often difficult for would-be movie makers to envisage what their video will look like when completed. That is why Japanese camcorder manufacturer Sharp has designed a machine which incorporates a four-inch colour TV screen which shows the user exactly what is being recorded without the need for an eyepiece.

Although the liquid crystal display screen is on the rear of the camera it can be swivelled round so that, using a remote control unit, film-makers can record themselves.

The VL-HL1, as it is called, has just been launched in Japan, and will be available in the US and Europe next year. Sharp: Japan, 06 621 1221.

Timesheets go out of the window

As the recession continues to bite, professionals who work on a time-accountable basis – accountants and solicitors, for example – are under increasing pressure to record accurately the time they spend on each client's affairs. The ProTem 300 electronic aid has been designed to replace the traditional timesheet and provide vital billing information.

The pocket-sized time recorder can be used in the office, or on the move, and has sufficient memory for up to 8,000 client/project combinations. Every few days the information is downloaded on to the office PC – ProTem works with all commonly-used database and accounting packages. The gadget is loaded with data from the PC. When a client calls, the user presses the "on" button, enters the name and the gadget does the rest. Pentica Communications: UK, 0734 792101.

Season's greetings from festive PCs

Print your own Christmas card with a festive font pack designed for those using the latest Windows software. The Winter Holiday font pack produces snow-capped letters for the verse, not to mention pictures of jolly Santas, holly, snowflakes and even a turkey. To ensure the £14.95 package is not just a one-week wonder, developers Bitstream of the US have also incorporated a pumpkin for Halloween and hearts for Valentine's day. Bitstream: US 617 497 6222. Fontware: UK, 0329 822857.

PEOPLE

Refit at Austin Reed

Austin Reed, the clothing retailer and manufacturer that in October recorded its first ever loss in the 28 weeks to August 8, has promoted Colin Evans, the 48-year-old deputy chairman and director of the retail division, to the new post of chief executive. At the same time, group managing director Neil Fitton, is moved back to head the manufacturing side.

"This cleans up the management structure; it was getting a bit top heavy" says Barry Reed, who explains that he has been "both chairman, and, without saying so, chief executive." Evans (below) and Reed are cousins, both grandsons of founder Austin Reed.

Reed, 61, says the plan is to put a younger team in place, whilst acknowledging also that the creation of the role of chief executive addresses the

Cadbury recommendations on corporate governance. Evans has been director of the retail division for the past two years, but Fitton has had a much higher profile with the City.

Commenting on Fitton's effective demotion, which surprised analysts yesterday, Reed explains how he "came out of manufacturing and has great ability on the manufacturing side." Fitton had been group managing director since 1985. Once marketing director of Chester Barrie, he became its managing director in 1978 when it was acquired by Austin Reed. "These are difficult times. We must try and focus the group on the Austin Reed label. We are after all first and foremost a retailing business which also has a manufacturing side" adds Reed.

David Anderson, 61, former finance director and currently commercial director, is retiring as an executive, but remains a non-executive director. Jill Anders has been made company secretary.

Waddell to Shanks & McEwan

Shanks & McEwan, the Glasgow-based waste management company, has appointed Gordon Waddell to replace Peter Runciman as chairman at the end of the year.

A Glasgow-based boy who was capped 17 times for Scotland, Waddell went to South Africa where he married the daughter of Harry Oppenheimer, the head of mining group, Anglo American Corp. Reversing a more normal course of events, Oppenheimer hired the persuasive Scot after Waddell had already separated from his daughter.

In spite of sitting as a Progressive Party Member of Parliament in Johannesburg for three years in the 1970s, Waddell decided not to settle in South Africa and returned in 1988 to reacquaint himself with his Scottish roots.

He is a director at Cadbury Schweppes and, in 1989,

became chairman of Fairway Group, the educational products group. And he sat alongside Peter Runciman as a director of Scottish National Trust.

He becomes chairman only two months after joining the board, his elevation apparently accelerated by an illness Runciman suffered 18 months ago.

Runciman, who is approaching 65, is unlikely to lack distractions. He retains a large shareholding in Shanks, where he was first appointed as company doctor 12 years ago when the company was capitalised at £12m and losing money. Runciman is also a director of Scottish Opera and a non-executive director of British Steel.

Though on the Environment Council of the CBI, Runciman is likely to increase his attacks on the local wildlife - and not just on his own river. A keen amateur of fly fishing, Runciman says he is close to tracking down suitable stretches of river in Russia, where the sport is apparently hardly known.

See Observer

■ Roger Camrass, formerly a top consultant with the Butler Cox organisation, has been appointed a European director of Arthur D Little, the US management consultants.

Camrass will have responsibility in Europe for the "high performance" business initiative, a pet project of chief executive Charles La Manchia, who is widely credited with restoring Arthur D Little's position among the leading consultants.

The concept behind the slogan is doing things better rather than the same things cheaper. It has much in common with the idea, fashionable at the moment, of business process engineering in which every aspect of the business goes under the microscope for re-evaluation. Camrass describes it as identifying the fundamental barriers to progress within an organisation and seeking ways to remove them.

Now 42, Camrass has been in technology management all his working life. A Cambridge engineering graduate, he worked for Plessey when it was an important force in telecommunications before joining Butler Cox, where he ending up pioneering the consultancy's European operations as head of the Benelux countries. Butler Cox was sold to CSC of the US in 1990.

Based in London, Camrass will be a member of Arthur D Little's information management practice board.

Jones quits Welsh development role

Gwyn Jones, one of Wales' younger entrepreneurs, is stepping down as chairman of the Welsh Development Agency so that he can spend more time on his growing business interests and his role as BBC governor for Wales.

The 44-year-old Jones, who was picked for the job by former Welsh secretary Peter Walker in 1988, will remain chairman until March 31 1993, or until his successor is appointed, if earlier. Prior to taking on the WDA job, Jones had been a successful businessman, having set up, and sold, a computer software business.

Although Jones had only recently been reappointed as chairman, his decision to quit is not totally unexpected.

Being a small country, Wales suffers from a shortage of well qualified people to take on the growing number of public appointments.

It has been known for some time that Jones was keen to lighten his workload, especially since he took on the job of being the governor on the BBC board representing Wales.

The WDA has been one of the more successful government-backed regional agencies in attracting inward investment. Since Jones took over, it has attracted twice as many projects as it did four years ago and last year Wales topped the UK regional investment league table.

See Observer

■ Guy Walker, chairman of Van den Bergh Foods, is to become chairman also of Brooke Bond Foods, both Unilever companies; Peter Johnson, current chairman of Brooke Bond, will retire in March.

■ Leonard Magrill, director of strategic planning, has joined the board of TEXACO Ltd.

■ Brian Walton has been appointed md of BREVINI UK.

■ Peter Merriman, formerly a director of Plessey Avionics responsible for military avionics, has been appointed general manager at JASMIN SIMTEC, manufacturer of electronic systems such as a nerve gas detection system and a portable explosives detector.

■ Stephen Johnson, formerly general manager, has been promoted to md of VOLVO TRUCKS (Great Britain); he succeeds Bernt Brandtzaeg who has been appointed vice-president of VOLVO TRUCKS EUROPE.

'Rinaldo and Armida' by Angelica Kauffman: her history painting was much admired by her peers

Femme fatale of the 18th century art world

Susan Moore on the life and work of the beguiling Angelica Kauffman

Why was Angelica Kauffman one of the most celebrated artists in late 18th century Britain? The current reappraisal of her work at Brighton Museum and Art Gallery (until January 3), shows that her success resulted not so much from her skill as a painter than from her choice of subjects.

Did the fact that she was an attractive young woman help? Maybe, but there was more to her than that. The Swiss-born painter settled in London with her artist-father in 1766 after spending seven years studying and copying the old masters and classical antiquities in Italy, and making a name for herself with a handful of polished Grand Tour portraits. Like the much more talented Artemisia Gentileschi who came to Britain a century before, she was a far rarer bird than the average female painter. For she was a history painter, and as such commanded the utmost respect from her peers.

Her beauty and talent certainly beguiled the art establishment. There appears to have been an engagement to Nathaniel Dance in Italy, a marriage proposal from Sir Joshua Reynolds, and impassioned advances from her fellow ex-patriate Heinrich Fuseli. She was admired by Goethe and Winckelmann, even seduced by the Revolutionary Jean-Paul Marat – all of which makes her something of an 18th century Alma Mahler.

Like Artemesia, she received considerable acclaim for her representations of history and literature's famale heroines, though there are none of the former's vulnerable Biblical Susannas and decapitating Judiths. Angelica preferred Penelope, the devoted wife and mother who waits patiently for Ulysses' return, or Andromache and Armida who endeavour to prevent their menfolk from going to war.

There are affecting tearful reunions, grieving mothers and saccharine allegories of love. Male painters also chose moralising and sentimental themes from classical history and contemporary literature, but the poignancy of having such tender moments expressed by a woman's hand would have been irresistible.

No doubt it was subject-matter and style rather more than sentiment that appealed to Sir Joshua. His heartfelt wish was to promote a national school of history painting and "improve" public taste with scenes of heroism, patriotism and familial piety. Little wonder that Angelica Kauffman was warmly welcomed to Britain and invited in 1768 to be a founder member of the Royal Academy of Arts, an institution which in its early days showed no prejudice against women or foreigners.

Brighton's second exhibition gallery is devoted to such academic histories – but what arid puffs of pomposity they are. They fail completely – rather as the fashionableconceptual-minimalist art fails today – to move or even to engage any but the most fanatical. Far from inspiring, they are unconvincing, formulaic and bloodless.

It is perhaps unfortunate for Angelica Kauffman that Neo-Classicism now seems one of the least alluring episodes in the history of art. Only the great Jacques-Louis David could rise above the prevailing tide of sterile academicism to create cool but never unfeeling tragedies in paint. The British public, excepting a handful of academicians, critics and the odd patron like John Parker of Saltram Park, cared far more for her portraits and decorative works.

At their best, the former have considerable charm. The famed beauty Lady Elizabeth Foster, later Duchess of Devonhsire, with a vista across the Bay of Naples and Ischia stretching behind her, is one such treat; the unidentified classically draped lady with a statue of Minerva is a more typical English pudding. The exhibition selectors have presented this woman painter primarily as a painter of women. Her portraits of men are far more sympathetic.

Why hide her direct and intimate portrait of Garrick, say, turning to look at us over the back of a rustic chair? The only single male portrait here, of her friend Joshua Reynolds in Van Dyck costume, straining as if to catch inspiration from the bust of his hero Michelangelo placed by his side, is a work of real quality and affection.

The final section of the show treats Angelica Kauffman's considerable and long-lasting influence on interior decoration and the decorative arts, which was made possible by the numerous prints made after her paintings and designs. Prints line the walls. Vitrines house Derby, Vienna and Paris porcelain, enamel plaques, Wedgwood medallions, tea trays and textiles all decorated à la Kauffman. Coutts & Co, for instance, lend a delightful late 18th century commode decorated with her scenes illustrating Homer's *Odyssey*.

An essay in the informative book accompanying the show, *Angelica Kauffman: A Continental Artist in Georgian England*, edited by Wendy Wassyng Roworth (Reaktion Books Ltd, £9.95) finally lays to rest the myth that almost every pretty Arcadian fancy set into an Adam interior is her work. There are only two documented instances of her personal involvement, one is her painting of four roundels in the vestibule of Burlington House, the present home of the Royal Academy. This is hardly surprising, since she remained in England for a mere 15 years, before the lure of the classical South proved too great.

Concerts on the South Bank

Levine and the Vienna Philharmonic

The Vienna Philharmonic Orchestra, in its 150th year of existence, has decided to spread itself more generously around the world. Cities other than the home base – London, Berlin, Paris, New York, Tokyo – are to be visited on a regular basis. This should be a cause for wide rejoicing: the orchestra remains probably the most admired in the world, and in the 19th-century Austro-German repertory (much of which is the orchestra's native inheritance) it continues to set a standard – for sound at once broad and warm in tonal character, mellow in blend, uniquely "together" in corporate personality – by which other orchestras tend to be measured.

But Wednesday's concert at the Royal Festival Hall, which launched the initiative (and which was transmitted live on Radio 3), was far from affording a great occasion. James Levine, the conductor, has been absent from London since the mid-1970s; one wanted to cheer his return, since in the intervening period he has grown into a figure of weighty significance on the international scene. It became increasingly hard to do so, since Mr Levine's direction of of Brahms, Schoenberg and Debussy was so plainly the reason for the artistic dullness, superficiality and (at times) gross vulgarity that hung on the evening like a lead weight.

The Brahms was the Third Symphony. The orchestra's seating – violins opposite each other, violas and cellos in the middle – is the correct one, and its virtues were apparent in the even spread of beautiful sound, neither lopsided nor out of balance with the winds. In Brahms performance, though, beautiful sound is only the starting point: intellectual and emotional adventure, risk-taking, decisive approach to musical ideas are the necessary next stages.

This Brahms Three began and ended with beautiful sound. It lacked energy, inner direction, strength of conviction; it gave the impression of rather tired imitation, of Vienna Phil re-production. At least, though, the language that Levine and his performers were speaking was recognisably, if not interestingly, Brahmsian. Their Schoenberg – the Five Orchestral Pieces, Op. 16 – was incoherent, with exquisite detail followed by muzziness and uncertainty (frankly, I wondered how completely well the players had mastered the music).

Their Debussy – *La Mer* – was simply grotesque: timbres worlds away from idiomatic leanness, every percussion flicker turned into a slam and a bang (the close of the first movement came direct from the J. Arthur Rank School of Debussy Interpretation), not the faintest grasp of how to mould sentences into paragraphs and thence into whole movements. The language of *La Mer* seemed mystifyingly foreign to these executants; their attempts to conceal incomprehension with regular recourse to inflated gesturing proved unsuccessful, to put it politely.

Max Loppert

Next VPO appearances on February 8, conductor Solti, and May 30, conductor Muti

Docklands Sinfonietta provides competition

While Levine and the VPO performed, Sian Edwards was conducting the Docklands Sinfonietta next door in the Queen Elizabeth Hall. They are an excellent band, expert and enterprising, and this was a particularly successful programme.

Their violins boast a cutting edge – keen rather than harsh, but never emollient – which in Mendelssohn's *Midsummer Night's Dream* Overture reminded us that there is rough, spine-tingling magic in the music, not just faery-effects. The "chamber"-size forces were exactly right for it; the pizzicato violas, for example, told better against the scampering *pp* violins than they ever do in big-band performances. Just one quibble: in Bottom's hee-haws, the "hee" was always played with a modern, drily literal staccato. Even in Mendelssohn's time, no ass ever brayed like that, and if I were Miss Edwards I should have insisted on having at least one violin palpably out of tune for it.

The scathing DS string-address was electrical in young Britten's Rimbaud study, *Les Illuminations*, the better to complement Joan Rodgers' bright and searching soprano. For a long time, *Les Illuminations* was regularly smoothed out to accommodate fluting English tenors; it has needed the rediscovery of the Britten/Auden *Our Hunting Fathers* to remind us all that early Britten could be abrasive, even nasty – but always clever. Here, Miss Rodgers did eloquent justice nonetheless to the decadent, swooning numbers too.

Miss Edwards kept the ambiguous lines of Ligeti's *Melodien* lucent and properly tantalising. In Haydn's D minor Symphony, no. 80, the Sinfonietta's muscular elegance paid dividends. By comparison, almost any big-band performance – such as Haydn could never have expected, until his later London seasons – would seem bland, or too comfortably inflated. The English Chamber Orchestra, the St. John's orchestra and the Academy of St.-Martin's-in-the-Fields deserve some thrusting competition; the Docklands ensemble supplies just that.

David Murray

Theatre in Dublin/Alannah Hopkin

Miller directs The Double Dealer

When Jonathan Miller directs Congreve in Dublin as part of Trinity College's 400th anniversary celebrations, great things are expected. The play was first performed at Drury Lane in 1693, and it was admired rather than liked. Then, as now, the problem lay with the characters of Maskwell and Lady Touchwood, as great a pair of amoral schemers as ever graced a tragedy. So what are they doing among the coxcombs and coquettes who form the rest of the cast of this comedy?

The problem that a director faces here is whether to play up the comedy, thus pleasing the audience but rendering the tragedy as mere melodrama, or to focus on the evil (it is not too strong a word) of Maskwell and Lady Touchwood. Dr Miller, it seems, has taken the second option.

Mellefont and Cynthia are about to be married, but not if Maskwell (who wants Cynthia) and Lady Touchwood (who lusts after her husband's heir and nephew Mellefont) have their way. Peripheral to the plot, but essential for entertainment are lord Froth,"a solemn coxcomb" and Lady Froth "a great coquette", Sir Paul Plyant, father of Cynthia and brother to Lady Touchwood, and his domineering second wife, Lady Plyant, plus Mellefont's friends, Careless and Brisk, the latter "a pert coxcomb". By now you will understand why there is a diagrammatic explanation of the characters' relationships in the programme.

The set, by Mark Bailey, consists of a charcoal grey panelled wall set well down stage – the "gallery" of Lord Touchwood's house rendered as a corridor, off which are four exits. The majority of the stage space is thus hidden from view, and serves as off stage apartments in which seductions and intrigues take place. The throne-like chairs at either edge of the set are seldom used. As the characters parade across the narrow strip of stage in their jewel coloured frock coats and hooped dresses, one is reminded of the famous "serpentine composition" of Hogarth's *Rakes's Progress* and *Marriage à la Mode*.

It is a bold and refreshing approach, which eliminates the visual clichés of Restoration comedy, and exposes the sometimes creaking bones of Congreve's drama. It is also a disconcerting reminder that this play belongs to the same century as Webster's *Duchess of Malfi*. Initially the effect is exciting, but it soon wears off, as characters busily enter and exit without leaving any strong impression. The laughs, and there are many in the reading of the first three acts, are very slow to come, and once one is accustomed to the staging things start to drag.

Oddest of all is the wildly varying quality of the acting. It matters not that Congreve is spoken in Irish accents, but silly lines must be allowed to sparkle, cocottes must flirt prettily, and gentlemen must move with confidence.

Stanley Townsend makes a plausible, even masterful villain of Maskwell. Miche Doherty in a flea infested red wig is a delightful Brisk, and Rosaleen Linehan is magnificently absurd Lady Plyant in the only performance that provokes spontaneous applause. The rest are a lasklustre lot who do not seem to know what to make of the lines they are given. Jeananne Crowley acts her heart out in an embarrassing effort to make sense of Lady Touchwood, but we are none the wiser about her motives.

London Sinfonietta tours its musical high spots

In this 25th anniversary season, the London Sinfonietta is making a special point of re-visiting some of the 100-or-more works commissioned during its years of existence. The current series is, indeed, a succession of carefully timed self-back-pats – an entirely forgivable practice, after all, on the part of a musical ensemble whose record in stimulating lively, enjoyable new music has been so matchlessly crowded with success.

In the case of Tuesday's Queen Elizabeth Hall concert, conducted by Diego Masson, it also resulted in a programme full of bounty. The act of reviving past commissions from Simon Bainbridge (the limpid, witty 1983 *Concertante in moto perpetuo*), Jonathan Lloyd (the zany yet richly substantial 1981 *Waiting for Gozo*), Mark-Anthony Turnage (the punchy, sweet-sour 1985 *On All Fours*), Boulez (the luminous 1984 *Dérive I*) and Xenakis (the highly coloured and exotic 1984 *Thallein*) amounted to more than just a tour of Sinfonietta high-spots. It afforded an apt and refreshing reminder that the British modern-music scene of the 1980s was neither monolithic, exclusive, nor riven with doctrinal hostilities, and that it was capable of elating variety.

But the encouragement of the new is not being neglected: the anniversary series is dotted with premieres. On Tuesday it was Colin Matthews's *Contraflow* for 14 players, 12 tightly packed minutes in this composer's exhilarating new vein of hard-edged discourse. The title Matthews used for his BBC commission earlier this year, *Broken Symmetry*, could sensibly have been used again to suggest the rhythmically pugnacious patterns set up, the cross-currents of "voice" and timbre.

Different solo instruments emerge above the fray at different points in the unfolding to act as a form of traffic-signalling. The personality of the Sinfonietta – both in its individual talents and their corporate combination – seems to have directly impinged on the bracing yet engaging character of the argument, not to mention the beautifully achieved climactic slowing toward reconciliation and repose.

Max Loppert

Queen Elizabeth Hall: last concert in the current series on December 8

INTERNATIONAL ARTS GUIDE

The Berlin Philharmonic Orchestra's programmes in coming weeks offer the clearest evidence of the transformation of its artistic horizons under Claudio Abbado. Before Abbado's arrival as music director in 1989, the BPO rarely ventured into modern music. His ideas are increasingly filtering through to the orchestra's concerts in the Philharmonie.

Next Wednesday, Abbado conducts the first of three programmes juxtaposing Beethoven piano concertos with contemporary orchestral works. The big audience draw is Maurizio Pollini playing the concertos. The contrast with works such as Ligeti's Atmosphéres (1961), Lutoslawski's Concerto for Oboe and Harp (1980) and Wolfgang Rihm's Bildlos/Weglos (1990/1) will be extreme. Abbado has never played safe: he has regularly put his authority and musicianship at the service of 20th century music, and the gamble - in terms of generating interest among musicians and audiences - has almost always paid off. It will be instructive to hear the Berlin Philharmonic - steeped in the romantic tradition, renowned for its tone quality - tackling modern scores under a renowned interpreter.

For his end-of-year concerts (Dec 30 and 31), Abbado focuses on Richard Strauss - not a composer with whom he has been associated - before turning in January and February to the orchestra's traditional strengths of Beethoven and Brahms. Late February sees another unusual Abbado programme: he conducts seven works inspired by the German poet Hölderlin - by composers as diverse as Brahms, Strauss, Reger, Ligeti, Nono and Manzoni.

Amsterdam this month welcomes back Bernard Haitink - but not at the head of the Royal Concertgebouw Orchestra, with whom he served as chief conductor for more than a quarter-century. It is no secret that when Haitink resigned in 1988, relations were cool. His guest performances this month are with the Rotterdam Philharmonic (Dec 15, 20, 23, 27 in Rotterdam, Dec 18 and 26 in Amsterdam). The Royal Concertgebouw has finally been able to lure him back for three concerts in February.

EXHIBITIONS GUIDE

ATHENS
Deste Foundation for Contemporary Art Post Human: 36 international artists of the younger generation. Ends Feb 14

BALTIMORE
Museum of Art Icons of Modernism: 17 works by Van Gogh, Picasso, Cezanne, Chagall, Hopper and others. Ends Jan 17. Closed Mon and Tues
Walters Art Gallery Romanticism and Revolution in 19th century Italian paintings: 100 paintings reflecting the tensions and conflicts that arose out of Italy's struggle for unification. Ends Jan 2. Closed Mon

BERLIN
Neue Nationalgalerie Pablo Picasso: After Guernica. A major exhibition of 90 paintings, 60 drawings and ten sculptures representing his later work, with special focus on the 1950s. Ends Feb 21. Closed Mon
Wannsee-Villa Max Liebermann (1847-1935): the German impressionist's villa is the setting for an exhibition of 35 paintings, watercolours and drawings, many on show for the first time. Ends Dec 15. Closed Sun (tel 805 3242)
Martin-Gropius-Bau America 1492-1992: a survey of American culture from Columbus' voyage of discovery to the present day. Ends Jan 3. Closed Mon
Nationalgalerie Art in Germany 1905-37: more than 140 paintings and sculptures by Dix, Klee, Munch and many others. Ends Jan 3. Closed Mon and Tues

FRANKFURT
Schirn Kunsthalle Edward Hopper (1882-1967): 160 paintings, watercolours and drawings by the realist painter of urban America. Ends Feb 14. Also Gabriele Münter (1877-1962): most comprehensive retrospective yet of one of the foremost female artists in early 20th century Germany. Ends Feb 10. Daily
Städel Honoré Daumier: 120 drawings by the celebrated French 19th century cartoonist. Ends Jan 17. Also Emil Schumacher (b1912): 60 paintings by the German abstract painter. Ends Jan 10. Daily
Jahrhunderthalle Joan Miro: prints. Ends Jan 10. Daily

HAMBURG
Deichtorhallen The Elbe: A Course of Life. A portrait of one of Europe's great rivers from its source in Bohemia to its mouth at the North Sea, illustrating the history, art, economy and lifestyle of the peoples who surround and use it. Ends Jan 3. Closed Mon

LEIPZIG
Museum der bildenden Künste Ernst Ludwig Kirchner: 87 watercolours and drawings, many from private collections, covering the career of the German Expressionist painter. Ends Jan 31. Also Rolf Szymanski (b1928): sculptures and drawings by the Leipzig-born artist now based in Berlin. Ends Jan 17. Closed Mon

MADRID
Museo de la Real Academia de Bellas Artes de San Fernando Goya: the decade of los Caprichos. The exhibition, covering 1792-1804, draws its title from his satirical engravings, included with preparatory sketches, portraits of friends and of the court aristocracy. Ends Jan 10
Fundacion Juan March David Hockney: 76 paintings, photographs and drawings. Ends Dec 13. Daily

NANCY
Musee des Beaux-Arts Edward Burne-Jones (1833-98): The Symbolist Drawing. More than 100 works on loan from the Fitzwilliam Museum, Cambridge, reflecting his links with the Romantic movement and Italy. Ends Dec 21. Closed Tues

NEW YORK
Museum of Modern Art Matisse. Ends Jan 12. Closed Wed (Admission by timed-entry tickets: call Ticketmaster 212-307 4545)
Metropolitan Museum of Art Royal City of Susa: Ancient Near Eastern Treasures in the Louvre. Ends March 7. Also Masterworks from Lille: 100 paintings and drawings from the Renaissance to the 19th century, including celebrated works by Rubens, Goya, Delacroix, David, Courbet and others. Ends Jan 17. Closed Mon
Guggenheim Museum Robert Rauschenberg, the early 1950s. Ends Jan 24. The SoHo site has the set of murals which Chagall painted for Moscow's Jewish Theatre in 1920. Ends Jan 17. The main museum is closed on Thurs, the SoHo site on Tues
Whitney Museum of American Art Agnes Martin: 80th birthday retrospective. Ends Jan 31. Closed Mon

PARIS
Musee d'Art Moderne de la Ville de Paris Figures du Moderne: 450 works by Kandinsky, Franz Marc, Nolde and other Expressionists, showing the images which shook the German art world at the beginning of the century. Ends March 14. Closed Mon, late opening Wed (11 ave du President Wilson)
Musee d'Orsay Sisley. Ends Jan 31. Closed Mon, late opening Thurs (quai Anatole France)
Louvre Byzance: 400 ivories, silks, enamels, manuscripts, icons and goldsmiths' work showing the influence of Hellenistic, Christian and imperial traditions in Byzantine art. Ends Feb 1. Closed Tues (Hall Napoleon)
Orangerie Les Nympheas Avant et Apres: the confrontation of Monet's waterlilies with canvases by Delacroix or Jackson Pollock brings out their shared lyrical abstraction. Ends Jan 25. Closed Tues (place de la Concorde)
Grand Palais Picasso et les Choses. Ends Dec 28. Closed Tues, late opening Wed (ave du General Eisenhower)
Petit Palais French drawings of the 18th century, including works by Fragonnard, Watteau and Vien. Ends Feb 14. Closed Mon (ave Winston Churchill)
Galerie Vallois Szafran: a series of watercolours obsessed with the themes of staircases and plants. Ends Jan 10. Closed Sun (36 rue de Seine)
Galerie Didier Imbert Fernando Botero: pastels, drawings, watercolours and small sculptures. Ends Jan 30. Closed Sun and Mon (19 ave Matignon)

STUTTGART
Galerie der Stadt Camille Graeser (1892-1980): a centenary retrospective of the Swiss artist known in the 1940s and 1950s for the geometric construction of his paintings. Ends Jan 31. Closed Mon
Neue Staatsgalerie August Kotsch (1836-1910): more than 80 photographs. Ends Jan 10. Closed Mon

WASHINGTON
National Portrait Gallery Rembrandt Peale (1778-1860): 75 paintings, with prints, drawings and correspondence, by a member of the distinguished American artist family. Ends Feb 7. Daily
National Gallery of Art The Greek Miracle: Classical Sculpture from the Fifth Century BC. Ends Feb 7. Also Ellsworth Kelly (b1923): 40 paintings dating from his early years in France. Ends Jan 24. Art of the American Indian Frontier. Ends Jan 24. Daily
National Museum of American Art Wayne Theibaud: hand-coloured prints. Ends Feb 15. Daily
Renwick Gallery American Crafts: 120 objects spanning the development of functional and sculptural crafts in the 20th century. Ends Jan 24. Daily

FINANCIAL TIMES

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Friday December 4 1992

Fixing the EC budget

IF NEXT week's Edinburgh summit is to achieve its goals, an agreement on the European Community's budget must be reached. Of the complex questions on the agenda, the budget is the least insoluble. A two-pronged strategy is needed. In addition to an immediate compromise, a more radical programme of reform should be started, aimed at making the EC budget more redistributionally rational and more economically effective.

If the current EC budget did not exist, nobody would dream of inventing it. The pattern of national contributions is the main problem. In 1992, Germany will provide two-thirds of the net budgetary contributions, the UK 22 per cent and France 11 per cent. Among the most important beneficiaries are not only Greece, Ireland and Spain, but also Denmark, Luxembourg and Belgium, some of the richest EC members. This is so despite the UK's controversial rebate.

The EC's role as a Robin Hood in reverse was not intended. The most important single reason for the outcome has been spending on the Common Agricultural Policy, which has fallen from 80 per cent of total spending in the 1950s to 58 per cent in 1991. It is expected to fall to less than 50 per cent by 1997, on the Commission's plans. But it will remain much the most important single category.

The pattern of spending is not the only problem. When the EC's "own resource" system was first introduced, it consisted of import duties and levies, along with a top-up element related to VAT. The distribution of revenue from import duties was particularly arbitrary, although this became less important as tariffs were lowered and the VAT contribution increased.

Perverse pattern

The EC has taken a pragmatic approach to remedying the absurdities. The perverse pattern of spending was remedied by the addition of new cornucopias, such as the regional fund, which was added in 1973, and structural funds for the poorer member countries. The package proposed by Mr Delors plans to increase structural funds still further, from Ecu18.6bn in 1992 to Ecu29.3bn in 1997. Within that proposal falls the cohesion fund, which is, in essence, a bribe for acceptance by the poorer member states of the Maastricht treaty's commitment to economic and monetary union.

Revenue has been tinkered with as well. In 1988, for example, the VAT contribution was pegged at 1.4 per cent of the VAT base and another resource introduced, related to GNP. This was the first, cautious attempt to relate contributions to relative wealth. The Commission has now proposed that the VAT element be reduced and the GNP-related contribution increased from about a quarter of total revenue to 40-45 per cent.

Need for success

In addition to tinkering with the pattern of spending and revenue, the EC also imposed a specific ceiling on the budget in 1988. Currently set at 1.2 per cent of GNP, the dispute that will come to Edinburgh is over whether it should rise to 1.36 per cent of EC gross product by the end of 1997, as in the Commission's official proposal, or 1.32 per cent by 1999, which is Mr Delors' latest suggestion, or to 1.25 per cent by 1998, this being the much condemned proposal from the UK presidency.

These differences are not worth a breakdown, especially when the EC needs a success. Splitting the difference between the poorer countries and the richer ones must be the right answer. Meanwhile, a modest reduction in its rebate might be the UK's contribution to a successful outcome.

Such pragmatism is not enough. The EC's budget needs more radical rethinking. In a valuable pamphlet for the Royal Institute of International Affairs, Sir Michael Franklin suggests a corrective mechanism designed to bring about an acceptable redistributive outcome. Given such a corrective mechanism, the UK would no longer be a special case. If there were a redistributional override in the budget, the EC's spending could also be focused where it would make a contribution additional to that of national exchequers. Spending that helps integrate the EC economy would be an obvious priority

The Edinburgh summit must, first and foremost, split the difference between what the poorer countries demand and what the richer countries feel they can afford. But it needs more. The heads of government should commission a study that will suggest ways of eliminating the main anomalies in the present budget. The aim is clear: the budget must be made both more rationally redistributive and more demonstrably supportive of the wider economic goals of the EC.

Time bombs in the Balkans

THE ORGANISATION of Islamic Conference is not normally given to radical or shocking pronouncements. Communiqués from its ministerial meetings tend to reflect a careful consensus between its 50 diverse member states, and to sound rather bland. Thus when the organisation's foreign ministers send the world an angry ultimatum involving the threat of military force, something unusually disturbing is clearly afoot.

That something is, of course, the Serbs' campaign of territorial aggrandisement and "ethnic cleansing" in Bosnia-Hercegovina, and the suffering of their mainly Moslem opponents. As this week's Jeddah meeting shows, dismay is by no means confined to Europe or the west; emotions are becoming inflamed throughout the Islamic world. That adds yet more tinder to the increasingly combustible mess that is the former Yugoslavia. Inevitably, it also brings outside powers one step closer to being sucked into the conflict. The only question is whether that involvement will come by mutual agreement under the auspices of the United Nations, or whether – as the OIC communiqué implies – individual countries will feel obliged to take matters into their own hands by arming or otherwise abetting the victims.

Things are not as simple as the Islamic foreign ministers would have us believe. Using force against Serbia – for example, in the form of selective bombing raids – will not stop what is largely a civil war in Bosnia, and certainly not in the next 44 days. Nor will it necessarily improve the lot of Bosnian Moslems.

Fitting response

But western nations do need to think again about how they might more effectively alleviate the tragedy, even if they cannot end it. Welcome as it is that countries such as Britain and France have sent troops to escort humanitarian relief convoys in Bosnia, it was never likely to be enough. As winter draws on and the prospect of mass starvation nears, a more far-reaching undertaking to set up "safe zones" in Bosnia where the Moslems will be protected as well as fed seems the only fitting response.

Intervention along such lines would be a logical extension of the UN's current humanitarian mission. Properly implemented, and provided safe zones did not become the springboard for a Moslem counter-offensive, it might also begin to draw a line under the Serbs' territorial expansion, and provide a basis from which to embark on the long and painful task of rebuilding Bosnia.

Protracted presence

The difficulties in such a course are considerable. It would require a substantial expansion of forces operating under the UN mandate in Bosnia – preferably including US ground troops and soldiers from a number of Islamic countries – and a readiness on the part of public opinion in the countries concerned to accept there will be casualties. There would be a danger of UN forces becoming over identified with one side in the conflict, or of their presence becoming protracted.

All these objections cannot be lightly dismissed. But the point was long ago passed in the Yugoslav conflict when the consequences of not intervening were more serious than the dangers of intervening with force.

The safe zones proposal is only a beginning. It should be implemented in conjunction with a further tightening of sanctions against Serbia and a rigorous military enforcement of the no-fly zone over Bosnia. It should also be accompanied by stronger action to prevent the conflict from spreading to Kosovo – through strong pressure on Serbia, which controls the province and is oppressing its majority Albanian population, to allow in a UN observer force, and failing that through the threat of direct intervention. Civil war in Kosovo could rapidly drag in other regional powers such as in Albania, Macedonia, Greece, Bulgaria and Turkey. It must be prevented.

Roman road to privatisation

The Italian government faces a bruising battle as parliament begins debate on its sell-off proposals, says Robert Graham

Italy is on the verge of its biggest public-sector shake-up since the 1930s, when Mussolini first gave the state a dominant role in economic development.

The government of Prime Minister Giuliano Amato is planning the largest and most concentrated sell-off ever proposed in continental Europe. Over the next three years privatisation is expected to raise almost L40,000bn (£18.6bn). The figure could be higher if the planned sale of the state's property portfolio gets going soon, alongside a determined effort to clean up local government finances via the privatisation of many municipal services.

"Privatisation on this scale is like pulling away the central stone in the whole postwar politico-economic edifice," observed one official involved in the privatisation programme. "The political parties have relied on a large public sector to provide thousands of jobs, especially in the south," he added. State control of the economy has been a central element in permitting the political parties to trade patronage in return for votes, and run the public sector with political rather than economic objectives.

The privatisation process will begin with a radical reduction in the state's two-thirds control of the banking and financial system, especially that part owned by IRI, the giant state holding company. Within five years IRI, which generates 5 per cent of the country's gross domestic product, could cease to exist, having sold off its assets or turned its subsidiaries independent. Sectors previously regarded as strategic and closed to private investment – including Alitalia, the national airline, ENEL, the electricity authority, and ENI, the state oil concern – will be partly sold off. Loss-making state activities in fertilisers, chemicals and ship-building are threatened with closure if no buyers can be found.

Those with most to lose in the privatisation process are at the core of the present four-party coalition: the long-ruling Christian Democrats and Socialists. They are being asked to commit a form of *hara-kiri* since patronage has been the main element of their traditional power.

But privatisation also represents a challenge to business and industry in four main areas:

- Italy needs to create more large-scale companies. The strong state presence throughout the economy has prevented the proliferation of large industrial groups, which can compete internationally. Only four private groups employ more than 30,000 people (Fiat, Ferruzzi-Montedison, Olivetti and Pirelli), an exceptionally small number for the world's fifth industrial power.
- Italy must drop its long-standing mistrust of foreign capital if privatisation is to succeed. No other EC member has maintained such strong barriers against the entry of foreign capital. Domestic investment at best can cover only half the amount expected to be raised by privatisation.
- A revolution has to occur in Italian savings habits. A combination of security, high returns and anonymity for the investor has made Treasury paper the most attractive savings instrument for both the rich and the small saver. The high demand for Treasury bills (Bots) and the risks of investing on the bourse have restricted the Milan stock exchange. Trading volume in relation to gross domestic product is half that of France and a quarter that of the UK. The so-called Bot-people have to be persuaded to jump ship and put their money into the shares of privatised companies. Equally, the public-sector deficit has to be cut to lessen the Treasury's need to produce such seductive borrowing instruments.
- Job security and high redundancy payments conceded by successive governments to a powerful trade union movement must make way for a more flexible labour policy. Otherwise the much-needed rationalisation of the workforces in the companies due to be privatised cannot take place. The unions talk of 150,000 jobs being at risk; depressed regions such as Sardinia and Sicily are likely to be among the worst affected.

The proposals on privatisation, which parliament began to debate this week, address all these issues, although the government's intentions regarding job losses and plant closures remain ambiguous. The programme – set forth in a 107-page outline, a Treasury green book and four volumes of appendices running to 2,000 pages – has been prepared in three months. This was an extraordinary achievement by the dilatory standards of Italian government, especially since the Treasury has been at the centre of preparing the 1993 budget and coping with the currency problems.

Parliament has undertaken to formulate a response by December 16. The response will not be binding, since the proposals are consultative; but the coalition could be brought down if it tried to go it alone in the face of strong parliamentary opposition from those who see the privatisation programme as a vote-loser.

"It is going to be a tough battle," observes Mr Piero Barucci, the Treasury minister.

In preparation for this battle, Mr Amato has subtly moved the goalposts – not once but several times. He began his five-month-long game of political survival by persuading the politicians that Italy's international credibility and the stability of the lira depended on their endorsement of an emergency budget. Next he said credibility rested on their approval for the 1993 budget and their support for structural reform of pensions, public health, the civil service and local government. Now his message is that privatisation is the only way to rescue the disastrous state of Italy's public finances, and thus it is necessary to the country's continued credibility. He also warns that failure to back the plan could force the resignation of the government, lead to a collapse of the lira and raise the spectre of hyper-inflation.

The underlying goals of privatisation are to increase competitivity, end subsidies, raise cash and broaden the scope of private ownership. However, the government believes the state should retain control in areas such as energy and advanced technology, which require long lead times on investment, or where strong socio-economic considerations in depressed areas prevail. For instance, IRI's Finmeccanica is set to become a publicly quoted company with a controlling state stake to guarantee Italy has a presence in advanced engineering and information technology.

In practice, necessity is the overriding philosophy. The immediate cash requirements of the Treasury and the deteriorating financial health of most state-run enterprises have made raising money paramount. Despite unprecedented austerity measures, the budget deficit next year will be more than 11 per cent of GDP – nearly triple the European Community average. Even if the EC permitted state funding of loss-making industries and continued high subsidies, the state cannot add to Italy's accumulated debt, equivalent to 104 per cent of GDP. Meanwhile, the combined debts of those companies targeted for privatisation or rationalisation amount to L140,000bn.

Divestiture will begin with banking and financial assets which offer high returns and require the least preparation to sell. The previous Andreotti government made tentative steps in privatising this sector. Crediop, the Treasury-controlled long-term lending bank, was sold earlier this year for L2,100bn to San Paolo di Torino, one of Italy's largest banks, and the Treasury's 50 per cent stake in IMI, the financial services group, is due to be sold for L4,000bn, principally to Cariplo, the Milan savings bank.

The Amato government, in contrast to its predecessor, has made a stronger commitment to banking's privatisation, deciding that the state should no longer dominate the sector. It has paved the way for a broader sell-off by converting IRI, ENI, ENEL and INA, the insurance institute, into publicly quoted companies owned by the Treasury.

The initial proposal, put forward in July by Mr Guiseppe Guarino, the industry minister, was to reorganise state assets into two "super-holdings" – one involving financial assets, the other industrial and energy assets – as a preliminary step toward privatisation. This approach was quickly dropped as being financially clumsy.

The government has since clarified its ideas and pushed Mr Guarino to the sidelines. In the case of IRI, the holding will keep the proceeds and the responsibility rests on to the management to raise funds. No formal limit has been fixed on the dilution of state control in any company. Pending parliamentary advice, the process will be monitored either by a special commissioner or a four-person technical commission.

INA will be sold off soon as possible. Its sale would unravel many of the incestuous links within the old system. IRI, for instance, rents its Rome headquarters from INA at a cheap rate; INA has an 18 per cent stake in Banca Nazionale del Lavoro, the Treasury-controlled commercial bank, and is reluctant to contribute to the L2,500bn to L3,000bn of new capital required by BNL in the wake of Iraqi loans scandal at its Atlanta branch.

The commercial banks in IRI's portfolio – Credito (67 per cent-owned), Comit (55 per cent) and Banca di Roma (35 per cent) – will be sold off in two years. With debts of L70,000bn and projected 1992 losses of at least L2,000bn, IRI is expected to proceed with the immediate sell-off of companies in SME, its foodstuffs, manufacturing and distribution conglomerate, plus parts of its telecommunications business. At the other end of the scale, IRI must find ways to cut losses in steel (ILVA), civil engineering (Iritecna) and shipbuilding (Fincantieri). IRI will retain the proceeds from any asset sales.

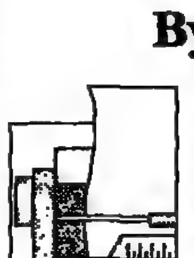
All proceeds from non-IRI asset sales are due to go to the Treasury, raising L27,000bn in the next three years. ENI is expected to sell non-core business such as Agip coal, Nuovo Pignone, the turbines company whose planned privatisation was announced in September, and parts of its chemicals interests. Strategic assets such as Agip's oil operations are to be floated on the bourse. ENEL, much eyed by foreign investors, has been given up to two years to prepare for flotation, largely because electricity tariffs are currently frozen.

These are ambitious plans at a time of recession, a free-floating lira and international financial uncertainty. The political establishment may well endorse the privatisation programme, though the programme itself is likely to move more slowly than projected. But the government risks seeing the most profitable state companies moving into the private sector, while it becomes saddled with the loss-makers.

PERSONAL VIEW

Why France is afraid

By Allan Buckwell and Veronique Courboin



The recent EC-US compromise on the agricultural elements of the Uruguay round of the General Agreement on Tariffs and Trade has provoked a strong French response. German Chancellor Helmut Kohl took a conciliatory line when faced with the possibility of a French veto. He advised us to try to understand the French problems with the proposed settlement.

What are the problems? Are French fears justified? What are the relative effects of the reforms of the Common Agricultural Policy, to which the French government acceded this summer, and the demands of the Gatt proposals?

It is first worth mentioning some fundamental features of French political economy and culture. In France, free trade is viewed as an Anglo-Saxon convenience which, from time to time, serves the interests of the UK and the US. Postwar French-US relations have often been characterised by mutual mistrust and French resistance to American hegemony. This creates a potent mix when it is combined with food and agriculture, the core of much French culture.

Specific fears aroused by the Gatt settlement concern the threat to exports of farm products, the incomes of farmers and the future of rural communities. The most difficult part for France seems to be the requirement that the volume of subsidised exports be cut by 21 per cent in 1993-1999. France is the world's second largest agricultural exporter, this trade accounting for 12.7 per cent of its total exports. The farm products benefiting most from export subsidies are cereals, sugar and dairy products. These account for 40 per cent of agricultural exports. The potential loss of exports is thus about 1 per cent (21 per cent of 40 per cent of 12.7 per cent) of the total over a six-year period. While no doubt unwelcome to those involved, this does not seem a large threat to the economy.

The three main elements of the Gatt settlement (reducing subsidised exports and domestic supports and improving import access) will decrease the prices to farmers and lower their gross incomes. During the 1970s average farmers' incomes declined. Most of this loss was recovered during the 1980s, during which average farm incomes rose 25 per cent. However, compared with real income growth for the rest of the population, farm incomes have fallen behind. The policy changes induced by the Gatt will thus not alter a long-established trend.

Given time, farmers will adjust their production patterns, using fewer inputs, such as fertilisers, machinery and so on, and redeploying resources to products least affected by reforms. Purchased input prices will be reduced as suppliers find themselves in a declining market. Land prices and rents will also adjust downwards. Agriculture will continue to shed labour but not, in absolute terms, as much as over the last three decades.

Significant relief is provided in the policy measures agreed in this year's reform of the CAP. This will reduce support prices in the cereals-oilseeds sector by 29 per cent and cut production of larger producers through a 15 per cent set-aside of arable land. This harsh treatment was made palatable by the introduction of area payments, which will more than compensate many farmers, particularly the small and less productive ones, for their loss of revenue. Calculations by Insee, the French statistical institute, demonstrate that the effect of the CAP reform is to increase farmers' incomes by 7 per cent compared with what they would have been under the existing CAP regime.

The Gatt agreement offers no additional direct threat to farm incomes. However, it does represent an attack on the use of subsidies to assist exports. From a French point of view, this is an assault on agriculture and its right to produce.

The expression of this concern at the political level covers the relative severity on production levels of the Gatt settlement and the CAP reform. Analyses demonstrate that the price cuts contained in the CAP reform, which encourage additional consumption of cereals and reduce production intensity, coupled with the set-aside, will meet the required fall in export volume. Thus for cereals, at least, the CAP reform was the tougher medicine.

Why is it that the French government accepted CAP reform, yet rejects the apparently softer Gatt settlement? The answer is partly political – a change of minister and an attempt to extract more Community compensation for French farmers – and partly a signal that extension of CAP reform to the, as yet largely unreformed dairy, sugar and wine sectors will be resisted.

However, agriculture is not the only economic activity nor the only subject in Gatt. France is the world's second largest exporter of services and intellectual property. Liberalisation of trade in services and better rules and disciplines in intellectual property offer significant economic gains, which will far outweigh the losses in agriculture. The French government has more work to do to persuade the nation of this and to find acceptable ways to compensate farmers for their loss.

The authors are professor and lecturer at Wye College, University of London

Joe Rogaly

Survival will suffice

John Major can claim success at Edinburgh if he can somehow achieve a non-disaster

There is little practical value in high and mighty deliberations about Britain's aims for the European Community summit in Edinburgh next week. This is not an occasion for lofty thoughts. We need not consider the destiny of a continent whose rhetoric about ever-closer unity is tempered by a resurgence of nationalism. Another time will do for all that. The prime minister holds the presidency of the European Council for a few more weeks. The government's hopes are high, but its confidence is low, or at least it wants people to think that it is. It dreams of glory, but what it really seeks is survival.

Survival? If the summit is not a flop, if it is merely another ho-hum meeting in a long series of such confabulations, that will be all right. The remaining shreds of Mr John Major's credibility could survive such an experience. If it ends in pandemonium, let the proximate cause be a fault committed by a continental country or group of countries. Britain must not be the guilty party. A continued show of willingness to be European can at least enable the government to say that it has kept itself "at the heart of Europe".

In short, survival may be all that is required. No one can tell whether the EC is merely in the throes of one of its characteristic crises or whether it is beginning to fall apart. That *is for history to determine.* What the prime minister can ensure is that the British are involved in multilateral discussions whenever they take place. We must always be participants, and when possible equal partners. That is the principal aim of Mr Major's European policy. It need not be jeopardised at Edinburgh.

Even with such a limited horizon, it is tempting to regard the prospect for next week with a dismal eye. Everything is in place for what might turn out to be a bad-tempered ending to a British presidency whose tendency to fall on its nether end must have the clowns of this world suffering fits of jealousy. Yet it would be a mistake to take negative speculation too far. Governments always talk down summits in the weeks before they are held.

Mr Major, who has not enjoyed a happy autumn, is, as ever, fighting for his political life. He greatly needs some demonstration of success, or at least non-failure. Almost anything will do. An agreement on the Danish question, the budget and subsidiarity would constitute a success, even if enlargement of the Community, an anti-recession programme and France's doubts about the Gatt agreement were set aside for another day. Yesterday's ingenious proposals for Denmark are promising. *Flim-flam on subsidiarity* should be possible. An intimation of "progress" on the budget is achievable. If none of that is available a flat communiqué that solves few problems might be the least-worst outcome. On most issues, broad statements of good intent, accompanied by timetabled schemes for working out the details, might be just enough. The key is to make the handover to the Danish presidency look respectable. Such an outcome need not be a disaster.

The key is to make the British handover to the Danish presidency of the EC look respectable

With a little bit of luck, the prime minister *can* achieve a non-disaster. Quite possibly, he can do better. He has spent the best part of a fortnight travelling around the EC, his hand out-thrust, his straight-in-your face friendly smile to the fore, looking for deals. This is what Mr Major is good at. He is a tactile politician, not unlike many American counterparts. When he is really fed up with you he puts a hand on your shoulder and looks you in the eye. He would have made a brilliant commercial traveller.

Perhaps he has studied the literature. He behaves like an archetypal student of Getting to Yes. *The chapter headings* of that classic 1980s volume by Roger Fisher and William Ury suggest Major-like responses. I recommend "What If They Won't Play?" and "What If They Use Dirty Tricks?" as well as "What If They Are More Powerful?" (answer: "develop your BATNA – Best Alternative to a Negotiated Agreement"). It is this self-disciplined and personable John Major who bartered for the best available deal at Maastricht a year ago. It is this same prime minister whose telephone diplomacy helped get the Gatt talks re-started following their dramatic breakdown last month. This is the man who cajoled the Queen into realising that she had better volunteer to pay taxes. He is good at business relationships, and a dedicated ferret in search of the other side's bargaining strengths and weaknesses.

These carefully nurtured skills have been of little use against the storms of 1992. No amount of charm could disguise the fact that by voting No in the summer the Danes may have scuppered the Maastricht treaty. A warm handshake could not cure the almost fatal shock of Black Wednesday. Pleas and salesmanship may have helped the prime minister win over a few recalcitrant backbenchers at the end of the recent paving debate on the bill to ratify the treaty, but it was not enough. In the end Mr Major had to fall back on his BATNA: he conceded that Britain's parliament would not take a final vote on Maastricht until after the second Danish referendum. The debate on the bill in the commons this week was purely symbolic.

All of this has soured the atmosphere at EC meetings. French, Dutch and German criticisms of Britain's presidency have not been mere negotiating ploys; some appear to be heartfelt. There is still a likelihood that at their private pre-summit meeting President Mitterrand and Chancellor Kohl (neither of whom have enjoyed recent sales calls from Mr Major) will devise a joint approach to Edinburgh that spoils Mr Major's party. The prime minister's pressing of the German flesh has paid dividends in the past; its effect will be put to the test again next week. He may be fortunate. It is in the German interest to prevent a British humiliation.

What is missing from all of this is a sense of positive purpose. The government is no different from most of its predecessors in wanting to see what its continental partners are *doing in order to put a stop to* it. Opinion at the centre of the Conservative party is little different from its counterpart of 30 years ago, when many Tories could not understand why we needed anything more than a European free trade area. Mr Major developed a second line of argument after Maastricht: that the treaty represented the start of a turn away from central control and towards a Europe of nations.

This is a reflection of reality. Whatever the aspirations of Euro-federalists, in practice the fundamental interests of member states are rarely overridden. The Commission's powers have been increased because of the single market. The government needs to develop proposals based on this foundation. Perhaps in the balmy days after the presidency is laid down it will learn to argue convincingly for such a Europe, such an Efta-plus. That is, as Mr Kohl has perceived, the most the British will accept. For all their fine words, it is clearly the most the French will put up with, the exception being proposals for stronger ties to Germany. Efta-plus is Germany's outer circle, beyond its D-Mark zone. It is there that the Tories are most likely to seek a Europe they can live with.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Telephone competition still lacking

From Mr Kenneth P Armitage.

Sir, In response to a Mercury Communications initiative to promote competition by offering cheaper calls to domestic users ("Competition cuts phone charges", December 2) BT proposes to freeze the cost of UK calls but increase the cost of line rental charges, just like last year, by 10p or some 7 per cent per week, well above the rate of inflation. Thus an increase in line rental charges will ensure that BT increases its revenue whether the network is being used or not and regardless of whether the service is improved.

Large organisations, those which make the most use of telecommunication networks, will see some overall reduction in expenditure; however, residential customers, who use the network far less frequently, will see an increase in their bills, even before VAT.

Surely if I use a service or a facility more than my neighbour I should expect to have to pay more for that service than my neighbour. The need for more competition in UK telecommunications is becoming increasingly essential.

Kenneth Armitage,
29 Stoneham Close,
Petersfield, Hants GU32 3BX

Cadbury offers institutions a route to responsible ownership

From Mr John Makinson.

Sir, Your leader on the Cadbury report ("Cadbury's code", December 2) questions whether the new code will "adequately fill the proprietorial gap which has resulted from the growth of impersonal institutional share ownership". The prevailing view of institutional ownership as impersonal is an odd one. The progressive concentration of equity ownership into the hands of a small number of investing institutions may not be to everyone's taste but it does at least permit management to maintain a regular and businesslike dialogue with the personal representatives of the organisations that control their company.

The proprietorial gap surely yawned rather wider when the share registers of British companies were dominated by legions of private investors whose personal relationship with management was confined to conversations over tea and a bun at the annual meeting.

It is precisely because of the growth in their collective ownership that institutional shareholders have found an effective voice to press for the changes outlined in the Cadbury report. To argue that the "whole emphasis on non-executive directors largely reflects the unwillingness of fund managers to take a direct proprietorial role" misses the essential point.

The enhanced status of non-executives results in large measure from the determination of those same fund managers to see their interests represented in the boardroom.

Non-executives, while operating within the structure of a unitary board, are potentially the most direct and powerful conduit of institutional opinion to executive management.

The recommendations of the Cadbury report will not, if properly implemented, offer an alternative to responsible institutional ownership but rather a mechanism through which that responsibility can be exercised.

John Makinson,
Makinson Cowell,
16-18 St John's Lane,
London EC1M 4DS

Better a small spread and a round of golf

From Mr Mark Hull.

Sir, Thirty years ago, when inflation and interest rates were last at today's sort of levels, local building society managers ran their businesses on a "5-4-3" rule: lend money for mortgages at 5 per cent, borrow it at 4 per cent, and then be on the golf course by 3 o'clock.

Now, though, my building society's mortgage rate is 8.3 per cent, and it borrows money from me at 5.3 per cent gross. This is a spread of 3 points, compared with one percentage point 30 years ago. Have building societies become three times as efficient as they were more than a generation ago? Are these the true economies of scale from all those amalgamations of small building societies? Or is this the true cost of automating cash dispensing and the back room operations? Can any of your correspondents think of a similar industry where "progress" has been so costly to the public?

Personally I'd prefer a 1-point spread and my manager on the golf course at 3 o'clock.

Mark Hull,
10 Oakthorpe Road,
Summertown,
Oxford, OX2 7BE

Effects of European law on contracting for public services

From Mr John McMullen.

*Sir, I wonder if I may con*tribute to the debate in your letters column on employees' rights in respect of contracting for public services.

There are two main issues on which the applicability of the Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE) to contracting-out situations have traditionally depended.

First, the TUPE regulations were drawn to exclude transfers of non-commercial ventures. The European Court in *Dr Sophie Redmond Stichting v Bartol* has, however, ruled that there is *no* such exclusion under European law (Directive 77/187). In appropriate cases a tribunal may be invited to apply European law. And, in any event, the government has *provided in the Trade Union* Reform and Employment Rights Bill for the abolition of the requirement of a commercial venture. This obstacle for employees will therefore shortly cease to be a problem.

The second issue, however, is that TUPE requires a transfer of an *undertaking* or part. According to the European Court this means there must be an economic *entity* (whether or not commercial in nature) which has retained its identity, before the legislation can apply. In some cases of contracting out of ancillary services (whether in the private sector or the public sector) what is granted to the contractor amounts, by contrast, to nothing more than a contract for services. However, quite *clearly, each case depends on* its own facts. There will be many situations where, on contracting out, an employee's rights *are* transferred under the legislation.

Perhaps the latest example is the European Court case of *Rask v ISS Kantineservice* (Case C209/91) in which the advocate general delivered an opinion, only this October, that Directive 77/187 is perfectly capable of applying to the contracting out of a staff canteen facility from an employer to a contractor. The sole question for the national court being, in his view, whether the undertaking's identity has been maintained.

It is therefore far from clear that, as Mr Forysyth states in his letter (November 30), "*there is not normally* a transfer of an undertaking" in the context of compulsory competitive tendering legislation. It entirely depends on how the activity has been structured and the nature of the contract given to the contractor.

The position of parties involved in contracting is therefore at best uncertain and will continue to be so until a sequence of illustrative cases passes through the courts taking into account the recent European Court decisions mentioned.

John McMullen,
partner and head of
employment unit,
Simpson Curtis,
41 Park Square,
Leeds LS1 2NS

OBSERVER

Lung arm of the law

■ Is next year's French Grand Prix about to go up in smoke? The answer, breathlessly awaited by not only motor-racing interests but tobacco companies, is due next Tuesday from an appeal court meeting in Rennes.

Directly at stake is almost £4m imposed in fines on Renault and the Williams grand prix team for breaking France's strict French law against tobacco advertising on television. The ruling, against which they have appealed, was made by a court in the small western town of Quimper.

But the fate of the 1993 Grand Prix also hangs on the Rennes court's decision. The French motor-racing authority's president Jean-Marie Balestre has said no attempt will be made to organise the race unless the appeal is upheld, with a pronouncement exempting racing teams carrying such advertising from punishment.

Although the law is scheduled to be toughened further on January 1, a measure of its present strictness is that the Williams team's transgressions did not take place in France. It was fined £300,000 for entering cars bearing Camel cigarette logos in the Japanese Grand Prix, knowing the race would be shown on French screens. Then another £3m was added for a repeat occurrence in the equivalent event in Australia last month. France's national TV company, TF1, faces court action for televising the races.

Moreover the same anti-tobacco crusaders who filed suit against Renault and Williams have won a similar ruling from the same Quimper court against Citroën and Mitsubishi for similar offences in the similarly televised Paris-Peking rally.

As for next week's appeal, the British team's head Frank Williams says he's confident of winning. If the decision goes the other way, however, the reverberations could spread far beyond motor-racing. For example, given any further economy measure in Britain's seagoing forces, newspapers selling in France might be wise to avoid headlining the story "Navy cut."

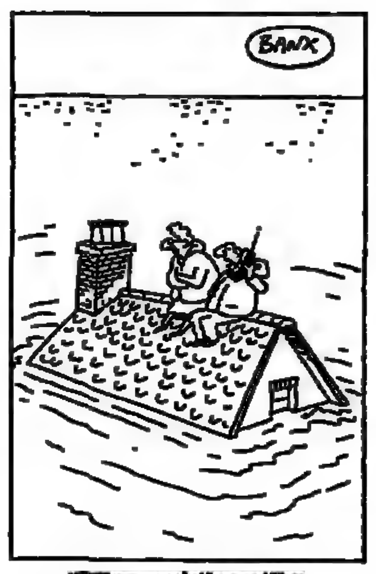
Welsh players

■ Time to place your bets on the likely successor to the Welsh Development Agency's current chairman Gwyn Jones, who has surprised everyone by celebrating his 44th birthday with the announcement that he is quitting one of the most powerful jobs in Wales.

Much fancied to replace him is geologist Roy Bichan, whose North Wales geology group, Robertson, was taken over by Simon Engineering last year. Strength: a successful businessman. Weakness: an Orcadian by birth, Leeds by training, Welsh only by adoption.

Contrariwise, Welsh by birth albeit English by adoption is surveyor Sir Idris Pearce, chairman of English Estates now about to be absorbed into the Urban Regeneration Agency. The fact that he'll be deputy chairman there to former secretary for Wales Lord Walker must be seen a strength. So must Pearce's closeness to the Tories.

Another similarly close is Cardiff's Thomas "the Insurance", who sold his business for mega-money to Sedgwick Jackson. Bonus point: Brian Thomas served as electioneering chauffeur to present secretary for Wales David Hunt, who has just put him on the board of another



"I'll cancel the milk"

quango supervising the development of Cardiff Bay.

Far more an outsider is Gareth Davies, boss of Midlands engineers Glynwed. While his political form isn't known, he is Welsh-born and has a clutch of non-executive directorships. Moreover an agency insider has been heard to say: "What we need is someone with investment links, access to cash and knowledge of how international business works."

Gareth Davies could fit the bill.

Recalled

■ Good to see Gordon Waddell – former rugby international, progressive South African politician and Anglo-American high-flier – get a proper job at last. It is five years since he quit South Africa and the chairmanship of Johannesburg Consolidated Investment Company, better known to old mining hands as "Johnies".

Although Waddell, now 55, was married to Harry Oppenheimer's daughter for a while, his rise up the Anglo empire was due to his undoubted business prowess. Hence it has been rather surprising that he has kept such a low profile since returning to the UK. Apart from a non-executive directorship of Cadbury Schweppes and an investment trust, his only other interest was a tiny company on the USM. The chairmanship of Shanks & McEwan should give him something to get his teeth into at last.

Who knows, he might even turn it into Britain's answer to America's Waste Management Inc?

China syndrome

■ Everything seems to be going wrong at once in Hong Kong. Relations between China and the UK are rock-bottom, Governor Chris Patten seems to have lost his deft political touch, and the Hong Kong stock market is nose diving.

The Hong Kong Jockey Club – that bastion of colonial plutocrats – has been forced to cancel the remaining eight of this year's racing fixtures due to an epidemic of herpes .... among the horses that is. And finally, China's People's Liberation Army has just finished practising its military manoeuvres in Guangdong province next door to Hong Kong. The name of the exercise: Catch the Eagle.

The word for eagle is pronounced "ying" in the Cantonese dialect. The word for England, though a different ideograph, is also pronounced "ying".

Its meaning was not lost on Hong Kong.

Rainy day

■ When the weather's wet, how do you know which car drivers are Scots?

They're the ones who switch off their windscreen wipers as they go under bridges.

FINANCIAL TIMES
Friday December 4 1992

Four-point proposal aimed at allowing a second Danish referendum

UK plan on Maastricht deadlock

By Our Foreign Staff

BRITAIN has put forward proposals over Denmark's relationship within the European Community which seem likely to break the deadlock over the Maastricht treaty.

EC governments last night cautiously welcomed the proposals which are expected to reduce the risk of acrimony over the EC's future at next week's Edinburgh summit.

The British initiative avoids tampering with the text of the treaty, but would allow Denmark to remain outside such pivotal areas such as monetary union and European defence.

The four-point plan calls for a series of declarations from the EC and the Copenhagen government to allow Denmark to submit the Maastricht treaty to a second referendum next year.

The proposals involve three clarifying "declarations" and one "decision" by the 12 EC nations. Although there was still uncertainty last night over the precise legal status of the package, the latter part of the proposal would exempt Denmark from being bound *to follow the key goals* of the Maastricht treaty.

France last night welcomed the plan to solve the problems caused by Danish voters' rejection of Maastricht in June. Up to now, Paris has been suspicious that a Danish compromise could water down the treaty.

Mr Jean Musitelli, spokesman for President François Mitterrand, said in Bonn: "We consider *that there is a possibility of satis*fying the demands presented by the Danish government to its 11 partners by adopting adequate declarations."

Mr Poul Schlüter, the Danish prime minister, said the British suggestion was "an excellent starting point for arriving at a satisfactory solution for Denmark".

In Brussels, officials from several member states expressed hopes that the plan could enable *Denmark to ratify Maastricht.* The treaty cannot come into force unless ratified by all 12 member countries.

Success on the Danish front would in turn clear hurdles holding up other contentious issues, such as the future financing of the EC and the entry of new member countries.

The proposals were announced after talks on Wednesday between Mr Schlüter and Mr John Major, the British prime minister, currently the Community president.

There was, however, apparent disagreement over the crucial point of whether the Danish requirement for exemptions from monetary union, a future European army and EC citizenship would be "legally binding".

One senior EC diplomat said in Brussels last night that the Danes were "softening" this demand after other EC members spelt out the risks of Denmark torpedoing the Edinburgh summit.

But Mr Uffe Ellemann-Jensen, the Danish foreign minister, said the British proposals would provide the legally binding guarantee Denmark was demanding for exemptions.

Danish opposition politicians – who will have considerable say in deciding whether the deal is acceptable – also expressed reservations, saying there was much that needed to be formulated more satisfactorily.

Dense black smoke hangs over La Coruña, Spain, after a Greek tanker ran aground, broke up and caught fire near the harbour

THE LEX COLUMN

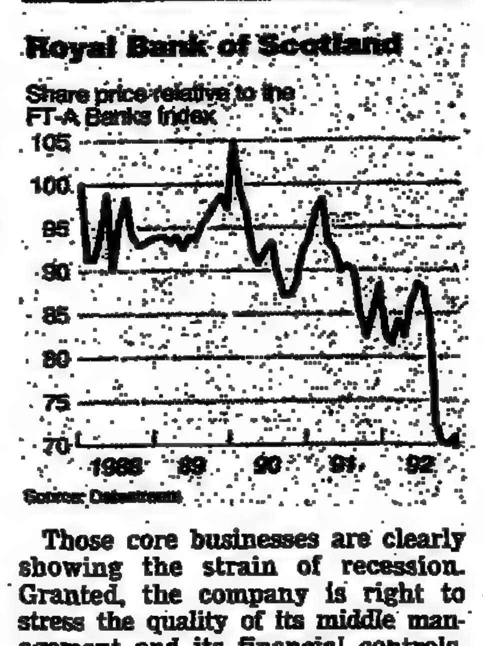
Marking time

The Bundesbank will doubtless feign indifference to yesterday's rash of gloomy economic data, but the currency markets may yet force its hand. True, the second consecutive quarter of falling gross domestic product places west Germany in recession on most definitions of the word. Industrial production figures confirm – if any confirmation was needed following recent grim results from the likes of Daimler Benz – that manufacturing industry is suffering.

The Bundesbank may hope to continue flexing its muscles until the budget is brought under control and the wage round is over. Yesterday's pay deal in steel was encouraging, but unions in that industry have a particularly weak case. Organised *labour* elsewhere could argue well into the spring. Whether the French and Danish governments are prepared to wait that long for lower rates is another matter. Judging by the renewed strains in the ERM this week, the foreign exchange markets clearly have their doubts.

Moving the French franc into a narrow band might impress the currency markets for a while. But it will hardly *resolve the basic underlying tensions.* The Bundesbank's Mr Helmut Schlesinger has indicated that he is tired of throwing public money at the market, and is not prepared to cut rates for other than domestic reasons. So it is hard to see why narrow bands should be credible. The alternative, a devaluation of the core ERM currencies against the D-Mark, would mean a serious loss of competitiveness for precisely those parts of German industry *now feeling* the most pain.

FT-SE Index: 2771.0 (+6.9)



Hanson

It is perhaps surprising that Hanson has managed to uncover £1.2bn of value in its newly acquired US aggregates business which had escaped the attention of the normally gimlet-eyed Mr Brian Beazer. At the same time, the £1.7bn of provisions against the Beazer acquisition is also substantial, even in the context of the business's £765m of environmental liabilities. Both figures may surprise the City, which had been expecting Hanson to move away from the extensive use of acquisition accounting as it places greater emphasis on the development of its core businesses. On the basis of yesterday's full-year figures it may take the company a little longer to divest itself of its image as an aggressive asset trader.

Those core businesses are clearly showing the strain of recession. Granted, the company is right to stress the quality of its middle management and its financial controls. But there must be questions about how much additional value can be squeezed from the basic cyclical businesses under Hanson's care. It is also *questionable* what kind of value the market is prepared to attach to such an operation.

That is all the more important since recently so many of Hanson's mooted acquisitions have run into the sand. It would be unfortunate indeed if the company really had lost its dealing touch with the outlook for core earnings growth still poor. The new accounting standards may make it easier for an outsider to interpret *what is going* on inside Hanson. The view, however, may not be as enticing as it once was.

GrandMet

The market was unsettled yesterday by GrandMet's deluge of differing accounting figures – and little wonder. The company has "lost" £500m of its historic 1991 profits and two-thirds of its reported earnings per share. This *apparently alarming restatement does* not stem from indulgence in GrandMet's drinks products; rather it reflects the sober reality of the new accounting regime which demands that most extraordinary charges are taken above the line.

The market has griped about GrandMet's accounting policies in the past. So despite the initial shock, greater transparency may help project the company more favourably in future.

The smoke surrounding the accounts – and the property writedowns at the now peripheral Inntrepreneur joint venture – has obscured GrandMet's continuing evolution from opportunistic asset trader into energetic manager of food and drinks brands.

GrandMet's US food business may have proved worryingly volatile last year with a vegetable glut wiping the smile from the jolly Green Giant business. But GrandMet's drinks business is resilient and the US economy may be *looking up.* Currency translation gains alone could contribute £50m this year although a sticky-fingered president-elect may decide to pocket some of the surplus if his half-promised tax on foreign corporations materialises.

Royal Bank

The equity market never likes to miss a turning point. It seems determined to scent one after Royal Bank of Scotland's 15 per cent increase in full-year operating profits. Management has belatedly recognised the need to cut costs. Though bad debt provisions of £401m were worse than expected, the theory is that these should decline as economic recovery takes hold. Maybe so, but operating profit is still only 2 per cent up on 1989-90. Royal made the mistake of lending heavily at the peak of the cycle. Now it is saddled with exposure to small and medium-sized corporate borrowers, who may continue to suffer even in recovery.

That is not the only ground for caution. One can dismiss the seemingly foolish way in which Royal has parted with nearly a third of group pre-tax profit to Mr Peter Wood, head of its fast-growing Direct Line insurance business. Though large, his £6m bonus is effectively compensation for ceding his original equity stake. The real danger for the market is in overestimating Direct Line's current contribution. Its £15m profit pales against total operating profits of £469m as well as against the possible £108m claim from the liquidators of Wallace Smith Trust.

Royal will struggle *to increase* its skimpy 2.6 per cent group net margin. Its surplus capital makes the dividend secure even if the latest payment is uncovered. But having too much capital can be unhealthy for a bank, especially one which is determined to expand aggressively in the US. The proof of that pudding will be in the eating. All in all, yesterday's 4 per cent rise in the shares is stretching things a bit.

France offers to send troops to Somalia

By David Buchan in Paris and George Graham in Washington

FRANCE yesterday offered to make a "substantial contribution" to a military force organised by the United Nations to get food to starving Somalians.

It is expected to contribute some 2,000 men – half from its base in neighbouring Djibouti and half from France – under command arrangements resembling those of the Desert Storm operation in the Gulf war.

French troops will be nominally under UN auspices, but effectively under the command of the US, which has offered a contingent of 20,000 men to protect *famine relief supplies.*

France may ask the US to airlift light French tanks to the area, while the French base at Djibouti may, in turn, be used for transit by American forces. President François Mitterrand yesterday telephoned president George Bush, before leaving for the Franco-German summit in Bonn.

A statement from the Elysée Palace said the French contribution was to help "put an end to *the intolerable situation prevail*ing in Somalia, where rival warlords have been pillaging relief supplies". Earlier this year French schools collected a large amount of rice for Somalia, but little has got through to starving Somalis. At the UN Security Council session last night France was expected to pronounce itself in favour of "firm and determined" international action.

According to the Libération newspaper, France plans to lobby for one of its citizens to get the post of military adviser to the UN secretary-general, in recognition of its growing contribution to UN operations. It now has 4,000 troops in Yugoslavia and 1,500 in Cambodia.

In Washington, although the use of force to protect relief operations in Somalia appears to command general public and *political support, some voices* have been raised against the proposed operation.

Congressman John Murtha, chairman of the House of Representatives appropriations subcommittee that decides the defence budget, complained yesterday that US intervention in Somalia could be a precedent for demands in other countries.

"We can only do so much. We *cannot be the policeman of the* world," he said.

Other influential members of congress have backed the idea of intervention in Somalia, but are wary about entering an open-ended commitment.

"The important thing is that we have a clear mission... that our military people know exactly what they are supposed to do and we'll know when we have succeeded," said Senator Sam Nunn, *chairman of the Senate armed* services committee.

Michael Littlejohns, UN correspondent, writes: After two rounds of private consultations the Security Council scheduled a formal meeting for last night during which a resolution authorising the despatch of the US-led force appeared likely to be approved.

Diplomats said they believed a *revised text satisfied African and* other third world members seeking firmer UN links for the operation than Washingon had initially been willing to accept.

US telecoms company begins rebuilding Lebanese system

By Alan Friedman in New York

US telecommunications company MCI has begun work on a rudimentary telephone system in Lebanon, the first significant US corporate involvement in rebuilding the country's infrastructure since the civil war of the 1970s and 1980s.

A satellite-linked telephone network, with capacity for 5,000 lines, was installed by MCI on top of the post and telecoms building in Beirut last month. The company has also built an earth station linked to its own satellite and an associated switch for telephone traffic.

The company is believed to be discussing a new telecoms system linking Lebanon and Syria. This, like the Beirut installation, would be of political as well as business importance given the influence Damascus wields over Lebanon and the Bush administration's efforts to woo the Syrian government since its participation in last year's Gulf war.

Siemens, the German electronics and engineering group, is already at work in Damascus installing 700,000 telephone lines in a contract underwritten by Qatari and Kuwaiti finance.

MCI said the Lebanese system, which guarantees connections for the 600-1,000 largest businesses and banks that need international links, took the place of hard-wire infrastructure and was "the beginning of a new communications network for the Lebanon".

Mr Larry Codacovi, an MCI senior vice-president, said Lebanon's Council of Ministers had issued a licence by decree last month for the initial contract, which is understood to be valued at less than $10m. Mr Codacovi added that MCI would pay the Lebanese authorities in hard currency a share of revenues generated by the new system, with the understanding that Lebanon would thus accumulate funds to buy equipment to build a more permanent telecommunications infrastructure.

Although MCI is a service company that does not make equipment, it is hoping to share in an eventual reconstruction of Lebanon's communications system.

Mr Codacovi stressed he did not think Lebanon would be ready for advanced services for about five years. "Right now the real goal is getting dial tones," he added.

It is generally estimated that the cost of rebuilding Lebanon's telecoms infrastructure would be $100m-$150m.

Clinton's early support sought

Continued from Page 1

because of China's poor human rights record.

Mr Patten hopes to persuade Mr Clinton that setting conditions on MFN renewal would adversely affect Hong Kong's economy, in which US business has a large stake.

However, his planned mission to the US has been given added *urgency by the sharp deteriora*tion in Sino-British relations.

Officials in Hong Kong fear that Congress may seek to link the colony's political development to the renewal of MFN rights.

The Congress and the new administration is are expected to begin in the spring to draw up their policy formation process about for MFN renewal. This will be at the same time as Hong Kong's local legislature is debating Mr Patten's proposals for more democracy.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
				Boulogne	C	8	46	Frankfurt	F	9	48	Majorca	F	20	68	Oporto	F	15	59	Tenerife	C	20	68
				Brussels	S	8	46	Geneva	C	8	46	Malaga	F	20	68	Oslo	F	7	45	Tokyo		–	–
				Budapest	C	6	43	Gibraltar	F	18	64	Malta	S	20	68	Paris	C	10	50	Toronto †	C	0	32
Ajaccio	C	17	63	Buenos Aires	F	26	79	Glasgow	R	5	41	Manila	F	31	88	Prague	R	9	48	Tunis	S	20	68
Algiers	F	20	68	Cairo	C	16	61	Helsinki	Sn	1	34	Melbourne	F	19	66	Reykjavik	F	2	36	Valencia	S	20	68
Amsterdam	S	8	46	Cape Town	S	22	72	Hong Kong	S	24	75	Mexico City	C	22	72	Rhodes	S	14	57	Venice	F	10	50
Athens	S	12	54	Caracas	F	29	84	Innsbruck	C	9	48	Miami †	S	14	57	Rio de Janeiro	C	33	91	Vienna	F	12	54
Bahrain	C	23	73	Casablanca †	F	19	66	Inverness	F	3	37	Milan	R	9	48	Rome	F	19	66	Warsaw	S	10	50
Bangkok	F	29	84	Chicago †	S	-4	25	Islamabad	C	18	64	Montreal †	R	1	34	Salzburg	R	7	45	Washington †	S	5	41
Barcelona	S	18	64	Cologne	F	9	48	Istanbul	S	8	46	Moscow	S	-3	27	S Francisco †	F	9	48	Zurich	F	8	46
Beijing	S	7	45	Copenhagen	F	7	45	Jakarta	R	31	88	Munich	C	7	45	Seoul	F	6	43				
Beirut		–	–	Corfu	F	13	55	Johannesburg	S	30	86	Nairobi		–	–	Singapore		–	–				
Belfast	C	4	39	Dallas †		–	–	Lisbon	F	16	61	Naples	C	17	63	Stockholm	C	7	45				
Belgrade	F	13	55	Dublin	S	5	41	London	F	8	46	Nassau	F	26	79	Strasbourg	F	10	50				
Berlin	S	8	46	Dubrovnik		–	–	Los Angeles †	S	11	52	New Delhi	S	21	70	Sydney	C	22	72				
Biarritz	C	12	54	Edinburgh	F	4	39	Luxembourg	C	6	43	New York †	S	4	39	Taipei	C	21	70				
Bombay	S	31	88	Faro	C	18	64	Madeira	S	22	72	Nice	C	14	57	Tangier	C	18	64				
Bordeaux	C	12	54	Florence	F	16	61	Madrid	C	13	55	Nicosia	S	18	64	Tel Aviv	S	14	57				

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
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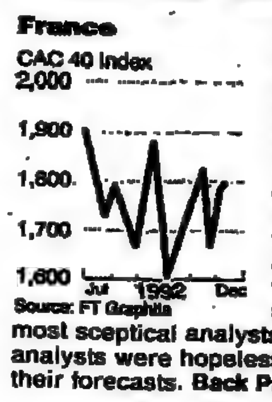
Friday December 4 1992

INSIDE

Westinghouse bows to shareholders

Westinghouse Electric, the US conglomerate, yesterday bowed to pressure from shareholders and announced changes to its corporate governance provisions – the rules which determine how a company is run. They include the establishment of a board committee, composed of outside directors, which will handle the nomination of new board members and other governance issues; and the elimination of the company's "poison pill" anti-takeover device. Page 26

France falls behind expectations



Source: FT Graphite

Predictions made one year ago about European stock markets likely to perform best in 1992 would almost certainly have included Paris. So much for predictions. The French economy has grown faster than many of its European counterparts, notably Germany, but slower than even the most sceptical analysts expected. In retrospect analysts were hopelessly over-optimistic in their forecasts. Back Page

Chile may melt copper group

The Chilean government may divide Codelco, the state copper company, into four as a step to partial privatisation. Codelco owns a third of all registered mining property in Chile. It has asked for $600m to invest. Executives think they will be lucky to get $450m. Privatisation may be the answer. Page 42

FT-A All-Share index expanded

Over 150 companies will be added to the FT-Actuaries All-Share from December 31, 1992, under changes approved yesterday by the FT-SE Actuaries UK Indices Committee. The All-Share will contain roughly 800 companies, up from the current 651, with the smallest company's market capitalisation some £20m ($30) at today's prices. The extended All-Share will represent 97 per cent of the total UK market. Page 43

UAP's hidden agenda

At first glance the announcement on Wednesday that Union des Assurances de Paris, the biggest single French insurer, was buying a minority stake in Nordstern of Germany from the Winterthur group looks like an ordinary business transaction. But there is a hidden agenda. Page 24

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				**Rises**			
Rises				Club Med	337	+	11.9
Berliner Bank	253	+	10	Cred Lyonn	399	+	11.5
Kaufhof	426.8	+	8.8	Schneider	562	+	14
Linotype	600	+	30	**Falls**			
Falls				Ecco	341	–	26
Heidelb Zem	820	–	15	Taittinger	1905	–	85
Henkel	557	–	18	Union Imm	455	–	19
Rheinelek	825	–	10	**TOKYO (Yen)**			
NEW YORK ($)				**Rises**			
Rises				Istcan	2590	+	230
Datapoint	$2\frac{5}{8}$	+	$\frac{1}{4}$	Japan Casting	255	+	23
Deltona	$3\frac{1}{2}$	+	$\frac{3}{8}$	Mitsumi Elec	1060	+	104
Intel	76	+	$2\frac{3}{4}$	Morinaga Milk	700	+	57
Mesa Inc	$5\frac{1}{8}$	+	$\frac{5}{8}$	Shinyei	347	+	27
Pomeroy Comp	$5\frac{1}{2}$	+	$\frac{1}{2}$	**Falls**			
Falls				Daihatsu	336	–	24
Adv Micro	$15\frac{1}{8}$	–	$2\frac{1}{8}$				
PARIS (FFr)							

New York prices at 12.30pm.

LONDON (Pence)							
Rises				Tiphook	318	+	13
Acatos&Hutcheson	154	+	14	**Falls**			
Acorn Inv	93	+	9	Alexon	98	–	27
AmicableSmlr	84	+	8	Comm Union	595	–	12
Br Aerospace	142	+	14	BIT	15	–	$2\frac{1}{2}$
Capital Inds	108	+	10	Grand Met	428	–	12
Colefax&Fowler	34	+	8	Granby	110	–	7
Control Tech	186	+	14	Pepe	$7\frac{1}{2}$	–	$3\frac{1}{2}$
Dobson Park	62	+	5	Royal Insce	253	–	12
Eurocopy	41	+	7	Spring Ram	89	–	$11\frac{1}{2}$
FR Group	215	+	15	Syltone	248	–	15
Reuters	1376	+	25	VSEL	495	–	12
Royal Bk Scot	189	+	$7\frac{1}{2}$				
Shanks&McEwan	189	+	8				

Strong rise in German banks' profits

By David Waller in Frankfurt

TWO OF Germany's biggest banks yesterday reported a strong rise in profits for the first 10 months of the year.

Commerzbank, Germany's third biggest bank after Dresdner Bank and the Deutsche Bank, raised total operating profits 13.3 per cent to DM1.67bn ($1.06bn) in the first 10 months and predicted that profits for the full year would exceed DM2bn, compared with DM1.83bn last year.

Bayerische Hypotheken und Wechsel-Bank, a large Bavaria-based bank, reported operating profits up 13.2 per cent to DM1.29bn for the 10 months and said partial operating profits – which exclude trading income – rose 23.2 per cent to DM1.27bn.

However the banks warned of a worsening risk environment and analysts said the banks' figures for the current year would be the peak of the sector's profitability.

The reason for the sharp increases in profits is that lending growth has continued to climb in spite of the economic slowdown, and the banks have held back costs. The economic downturn has not yet led to a spectacular increase in bad debts, although bankers warn that credit risk has increased sharply.

At Commerzbank, total lending for the group rose 2.4 per cent to DM161.6bn while net interest income climbed 10.3 per cent to DM3.69bn.

Commission income rose only 2 per cent to DM1.1bn, reflecting poor stock market conditions. Margins improved: total earnings rose 8.7 per cent while expenses climbed only 6.3 per cent.

At Hypo-Bank, net interest income rose 17.3 per cent to DM2.7bn, while lending climbed 10.6 per cent overall to DM167bn. Commission income was 14 per cent up at DM472.5m.

Mr Martin Kohlhaussen and Mr Eberhard Martini, chief executives of Commerzbank and Hypo-Bank respectively, said the lending climate had deteriorated sharply in recent months. Mr Martini said the deterioration in the economy had not yet fed through to the 10-month figures, but had been reflected in the number of refused applications for credit.

Analysts will carefully study Deutsche Bank's figures, to be released next Tuesday.

Germany's biggest bank blamed the general economic climate for a 4 per cent fall in partial operating profits at the half-year stage.

GM to cut 18,000 staff and shut plants

By Martin Dickson in New York

GENERAL Motors, the US motor manufacturer in the throes of a sweeping restructuring, yesterday unveiled plans to close nine more North American plants, employing more than 18,000 workers, and dispose of some 14 per cent of its automotive components operations.

The closures, designed to help restore GM's loss-making North American operations to profit, are the latest stage in a plan the company announced a year ago to shut 21 plants and shed 74,000 jobs by the mid-1990s. It announced the names of 14 of the plants earlier this year and had promised to decide on the remaining seven by the end of 1992.

In the event, it yesterday named nine factories, bringing to 23 the total to be closed between now and 1996. They include two assembly plants: Wilmington, Delaware, which employs 3,500 and makes Chevrolet Corsica and Beretta cars, and the Flint, Michigan, truck assembly plant, which employs 4,450.

Mr Jack Smith, chief executive, said the closures would allow GM to cut its capacity to 5.4m vehicles by the mid-1990s, which it believed to be in line with market demand.

Employees are likely to be shielded from the worst effects of the cuts by a GM scheme which allows redundant workers to remain on virtual full salary.

Other plants to be shut include a metal fabricating operation in Kalamazoo, Michigan, which employs 3,100 and makes doors, floor pans and other items for a variety of GM vehicles.

Five other US plants are to be closed as part of a restructuring announced yesterday at GM's Automotive Components Group, the world's largest supplier of vehicle parts. An axle plant in Canada will also be shut or sold.

Analysts have long argued GM needs to cut back on its components operations, which supply about 70 per cent of the company's vehicle parts, a far higher proportion than at its two US rivals, Ford and Chrysler.

The group said it would now channel its energies into seven major business segments, accounting for some 86 per cent of its $24bn annual sales, in each of which it ranked first or second in global market share.

These were: energy storage and management systems; engine management systems; lighting systems; occupant environment management systems; power and signal distribution systems; ride and handling systems; and thermal management systems.

It would be getting out of areas representing 14 per cent of revenue. These included bearings, axles, forge operations, fascias, certain motors, chrome bumpers, horns and some seat trims.

Richard Lapper on UK insurer's success at selling policies by telephone

Direct Line rings the changes

The scale of the threat to the UK insurance industry posed by rivals that sell by telephone is underlined by yesterday's results from Direct Line, the Royal Bank of Scotland's general insurance subsidiary.

When the company began direct telephone sales of motor insurance policies in 1985 the experiment was dismissed by many in the industry as unworkable.

Seven years on Direct Line has shown that it is possible to market motor and home insurance successfully through mass media advertising and selling policies over the telephone. This approach – copied by other fast-growing insurers – short-circuits the industry's traditional chain of distribution and leaves no role for the insurance broker.

In the past 12 months premium income from motor policies has grown 90 per cent. Direct Line insures 670,000 drivers, 4.5 per cent of the £4bn-plus a year UK motor insurance market. Inroads are also being made into the home insurance market, where Direct Line now has 206,000 policies.

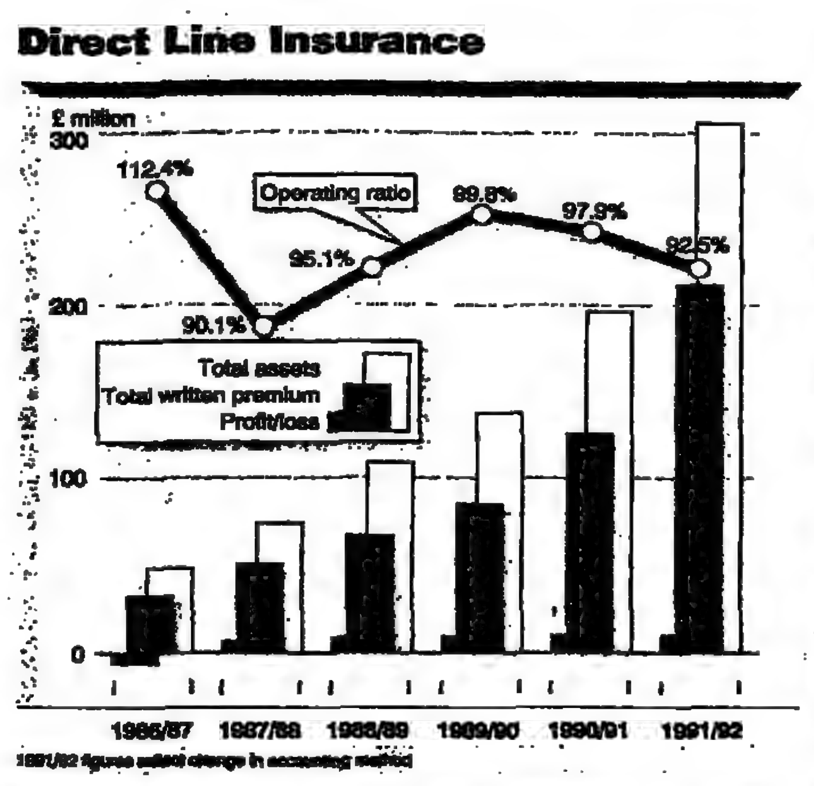
At the same time, the company is continuing to make profits – pre-tax profits for the 12 months to September 30 were £15.1m ($23.7m) compared with £12.1m (on a restated basis) last year. The company's assets rose to £304.3m, up 48.2 per cent from the previous year's £205.4m. It was this performance that won a £6m remuneration package for Mr Peter Wood, the quietly spoken former insurance broker who launched the company.

Some of Mr Wood's rivals say Direct Line is able to grow so fast only because it is under-reserving for future claims, offering cheap premiums or skimping on service. Mr Wood says this is nonsense, and that R Watson & Co, the actuaries, describe reserving levels as "reasonable". The Consumers' Association has consistently awarded the company high marks for the quality of its policies and the speed of response on claims.

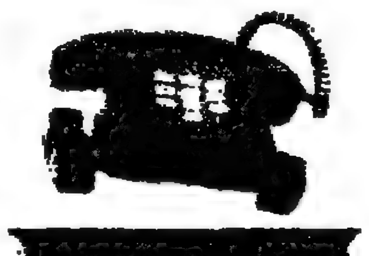
Instead, Direct Line's success appears to be based on two inter-related factors. Its cost base is much lower than that of insurers which sell through brokers, because its centralised computer system allows its clerks to handle much more business per head than traditional insurers. Clever software helps ordinary clerical workers to make underwriting decisions, saving the costs of skilled underwriters and middle-managers.

As a result, Direct Line says its expenses are only 18 per cent of its premium income, well below the market average in the high 20s. The company is also more selective than its competitors about the business it writes. It uses computer systems to tune finely the premiums it charges in line with the level of perceived risk.

For good risks Direct line's motor premiums can be up to 20 per cent cheaper, while the company refuses to insure what it regards as bad risks. As a result a much higher proportion of customers choose to renew their policies with Direct line than is the case with other companies, which in turn reduces distribution costs. Retention rates are more than 85 per cent, compared with 50 per cent for companies that sell through brokers.



1991/92 figures reflect change in accounting method



Peter Wood, Chief executive

Direct Line's success has attracted imitators, such as Churchill, a subsidiary of Switzerland's Winterthur. Other recent "direct writers" in the UK market include Denmark's Topdanmark and France's Gan-Minster.

Together, this clutch of rivals poses challenges both for the composite companies and for the UK's more than 3,000 independent brokers. Trade association figures show that by 1991 direct writers had 13 per cent of the motor insurance market.

Independent analysts such as Stephen Bird, of securities house Smith New Court, suggest that market share could now be as much as 16 per cent, and may rise to 25 per cent within the next few years.

Mr Wood claims that if present trends continue, Direct Line could soon be the UK's biggest motor insurer.

The composites "have to decide what to do about the magpie in the nest", says Mr Clive Bannister, insurance specialist with Booz Hamilton & Allen, the consultants.

Increasingly companies relying on brokers to sell their products run the risk that they will lose much of the better quality business and be left with policies likely to produce heavy claims. In industry jargon composite companies are being "selected against".

Some companies have responded by tightening their links with those brokers who obtain the best quality business for them. They have stopped accepting policies from brokers whose business produces higher than average claims. Others have acquired interests in the larger broking groups such as Swinton, AA Insurance Services and Hill House Hammond.

Three companies – General Accident, Royal Insurance and Eagle Star – set up their own direct insurance operations between 1988 and 1990 but were initially anxious to avoid open identification with these subsidiaries for fear of offending brokers. During 1991 GA faced a brief boycott from brokers angered by its promotion of direct sales. Over the past 12 months, however, there have been signs that the insurers are changing their minds. Royal Insurance, for example, is understood to be considering "rebranding" its Bristol-based subsidiary, The Insurance Service, which in the first nine months of 1992 sold 30 per cent of the motor insurance policies sold by the whole Royal group.

Hitherto publicity material produced by TIS has made little or no mention of the fact that it was actually a Royal subsidiary, in spite of the well recognised strength of the Royal Insurance brand.

The big losers from these trends are likely to be the smaller brokers. According to Ms Julianne Jessup, of De Lisle Jessup Scott, an insurance consultancy, "personal lines brokers are clearly feeling the pinch".

The British Insurance and Investment Broking Association, which represents some 3,000 brokers, says its membership has fallen slightly recently, partly as result of the competition between the direct writers and the traditional composites.

Composites may be forced to continue to abandon caution and opt for more vigorous promotion of their direct writing subsidiaries. "They have to fish or cut bait. They have to choose one way or another," says Booz Hamilton's Mr Bannister. "If they continue to walk down the middle of the road they will get run over."

Gutfreund fined and banned for life

By Patrick Harverson in New York

THE SECURITIES and Exchange Commission yesterday announced that Mr John Gutfreund, the former chairman of Wall Street securities house Salomon, and three other former senior Salomon executives, have agreed to settle charges that they failed to properly supervise the firm's government bond trading desk between 1989 and 1991, when it was involved in illegal bidding during Treasury auctions.

The settlements follow Tuesday's announcement that the SEC is suing Mr Paul Mozer, the former head of government bond trading at Salomon, for his part in the scandal that rocked Salomon in August 1991. Mr Mozer, and a senior aide who worked with him on the bond desk at the time, have been charged with violating federal securities law by submitting false orders for securities to circumvent government bidding limits. Both men are contesting the charges.

Under yesterday's settlement, Mr Gutfreund was fined $100,000 and is barred from taking charge of a securities firm for life. Mr Thomas Strauss, the ex-president of Salomon, was fined $75,000 and is suspended from the securities industry for six months, while Mr John Meriwether, a former vice-chairman, was fined $50,000 and barred from the business for three months. All three accepted their settlements without admitting or denying wrongdoing.

It was their failure to report the illegal bids immediately, and their failure to discipline Mr Mozer for his actions, that led the SEC to charge the executives with failure to supervise. The SEC said that there was no evidence that Mr Gutfreund, Mr Strauss or Mr Meriwether were involved in the illegal bidding.

Of the various sanctions, Mr Gutfreund's is the most severe. While the $100,000 fine is not particularly substantial, the SEC's decision to bar him from running a securities firm is a significant blow to a man who made his name and fortune as the head of the biggest bond trading house in the US.

Mr Donald Feuerstein, a fourth ex-Salomon executive, the former chief legal officer who also resigned over the bond trading scandal, was not fined or suspended, but was criticised in the SEC report for not reporting illegal activities earlier.

Hanson turns in pre-tax decline of 2% for year

By Roland Rudd in London

HANSON, the Anglo-US conglomerate, yesterday reported a 2 per cent fall in pre-tax profits for the year to September 30, its first ever year on year decline.

Profits fell from £1.32bn to £1.29bn, on increased sales of £8.8bn (up from £7.7bn) mainly because of the increase in borrowings used to buy Beazer, the aggregates and building products company, which was acquired last year.

Operating profits increased by 12 per cent to £1.07bn and earnings per share were up 2 per cent to 22.2p (from 21.7p).

Mr Derek Bonham, Hanson's chief executive, said: "There is no magic wand; we do not walk on water and therefore cannot buck trends. But we are pleased that the businesses we are in are out-performing our competitors."

After integrating the subsidiary's £1.5bn borrowings the group reported net debt of £774m, giving gearing of 18 per cent. Last year the group had net cash of around £400m.

Interest income fell from £188m to £46m.

The third quarterly dividend was increased to 2.85p (from 2.75p) which is equivalent to a annual dividend of 11.4p compared to last year's total of 11p.

The move to quarterly dividends, partly introduced for the benefit of the group's US shareholders accustomed to quarterly dividends, resulted in a tax charge of £197m, down from £258m.

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Details, Page 24

US approves Imigran

By Paul Abrahams in London

GLAXO, Europe's largest drugs group, yesterday said the US Food and Drug Administration had issued a letter of approval for its migraine treatment Imigran.

The success of Imigran is vital to Glaxo. The drug is one of three potential blockbusters being launched by the company to offset the expected decline in earnings when the patents on Zantac, the world's best-selling drug, expire during the mid-1990s.

Glaxo said it had received a letter notifying it that Imigran, known in the US as Imitrex, would be given final approval once certain conditions had been satisfied. Glaxo said discussions with the FDA were under way.

Grand Met profits slip to £902m on weak US sales

By Philip Rawstorne in London

GRAND METROPOLITAN, the UK food, drinks and retailing group, yesterday reported a 5.1 per cent fall in full-year pre-tax profits to £902m ($1.3bn).

Strong gains from the IDV drinks division – which accounted for more than half the group's trading profits – were offset by reduced earnings from the Pillsbury and Green Giant food operations.

A combination of weak consumer demand, a glut of vegetables and pricing pressures hit the North American food market in the late summer, causing a sharp downturn in dollar sales. "However, we believe the worst is now behind us," said Sir Allen Sheppard, chairman and chief executive.

"We are cautiously optimistic about the year ahead," he added. "At present, evidence of early economic recovery is sparse, but we are encouraged by current reports from the US. We expect overall market improvement progressively through 1993, though it may be the second half before we see any major benefit to our businesses."

Property and other exceptional items were £50m lower than last year, contributing to the fall in taxable profits.

Earnings per share declined 7.1 per cent to 30.1p, but a final dividend of 7.7p raised the total payment to 12.2p, an increase of 8.4 per cent.

Group trading profit fell 7.6 per cent to £982m on turnover down from £8.75bn to £7.9bn.

Overall food division profits of £210m were 16.3 per cent lower on marginally higher turnover of £2.63bn.

The difficulties in the US market cut North American profits from £213m to £181m. European operations recorded a 23.7 per cent fall to £29m, as investment continued in the expansion of Pillsbury and Häagen-Dazs.

Drinks profits increased 12 per cent to £509m on turnover £430m ahead at £2.86bn. Volume growth was helped by acquisitions of brands such as Cinzano, and increased control of distribution.

Retail trading profits were flat at £220m. Burger King, with growth of 9 per cent, accounted for £137m of the total.

The Pearle eye care chain recorded a loss of £18m, though "a material improvement" showed in the second half.

GrandMet's share of operating losses in the Inntrepreneur pub joint venture with Courage amounted to £14m.

The group also had to write down £117m against reserves after a revaluation of Inntrepreneur's estate, and to inject £32m cash to comply with banking covenants.

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Details, Page 29

Daf shares dive as shake-up planned

By John Griffiths in London

SHARES in Daf, the Dutch truckmaker, touched a new low yesterday as it admitted that further retrenchments would be made.

The shares sank to Fl 5.40, down Fl 0.80 from Wednesday's close, before being suspended briefly ahead of a joint statement by the company and its unions. They recovered to close steady Fl 6.20, compared with a high for the year of Fl 26.90.

DAF, which also controls the former Leyland truck and van-making operations in the UK, gave no details of the planned restructuring and job losses.

Daf's UK plants have taken the brunt of the previous job losses. But with the UK commercial vehicle market having stabilised, and some key continental European markets now turning down, it is expected that the main focus of job-cutting will shift to DAF's Dutch and Belgian facilities.

In a further bid to reassure markets, yesterday's statement also declared that long-running negotiations with its banks and the Dutch and Belgian government on additional state-guaranteed credits of Fl 210m should soon reach a "positive" conclusion.

Daf has said it would have to defer payment of a dividend this year on an issue of preference shares made a year ago to raise Fl 250m to strengthen its finances.

UAP fights for a bridgehead

Alice Rawsthorn reports on the French insurer's foray into Germany

Jean Peyrelevade: standing could be imperilled

AT first glance, the announcement on Wednesday that Union des Assurances de Paris, the biggest single French insurer, was buying a minority stake in Nordstern of Germany from the Winterthur group looks like an ordinary business transaction.

UAP has made no secret of its ambitions of expanding into Germany, and Nordstern is an attractive vehicle. Moreover, the deal, whereby UAP cedes 3 per cent of its equity to Winterthur for 37.4 per cent of Nordstern, seems reasonably priced and should not dilute UAP's earnings.

But there is a hidden agenda. Nordstern is the latest offensive in UAP's increasingly bitter battle with Suez, the French holding company that controls Nordstern through Colonia, the German insurer which UAP has long hoped will be its bridgehead into Germany. Last week, Suez scuppered UAP's hopes by breaking off its long-running negotiations over Colonia.

Mr Jean Peyrelevade, UAP chairman whose high standing in French financial circles could be imperilled if he cannot clinch the Colonia deal, has described the Nordstern deal as part of his "friendly chess match" with Suez.

The European insurance industry is now waiting to see whether "friendly" the rest of the game will be.

The chess match began three years ago when UAP paid FFr14.3bn ($2.66bn) for 34 per cent of Victoire, a French insurer controlled by Suez, which had bought it for FFr25bn. UAP then tried to swap its Victoire shares for part of the latter's controlling stake in Colonia.

The transaction, or so Mr Peyrelevade hoped, would be eased by his own connections with Suez, which he chaired for three years until 1986, and with Mr Gérard Worms, its current chairman whom he had hired in 1984.

But UAP's only bargaining tool was a minority holding in Victoire, which was of little value to Suez given that it already controlled the company. Moreover, as Mr Worms was well aware, the French financial community saw the Colonia affair as a test of his influence over Suez and of his independence from his old patron.

Mr Peyrelevade was in an even trickier position. UAP is state-controlled and its chairman is chosen by the French government. He is a socialist appointee who could lose his job if the Right returns to power in next March's elections. He really needs to clinch Colonia before March.

Only eight days ago he seemed to have succeeded. Suez was poised to approve UAP's offer of all its Victoire shares plus FFr1bn in return for a controlling 50 per cent stake in a new holding company which would own Victoire's majority stake in Colonia.

But Suez held out. It wanted another FFr1.5bn. "Suez is smart," said Mr Michael Huttner, insurance analyst at Banque Nationale de Paris. "It knows UAP is desperate and has seized its chance to raise the price."

Mr Peyrelevade needs to bring Mr Worms back to the negotiating table. Nordstern is his latest ploy. It provided roughly two-thirds of Colonia's profits last year, with net profits of FFr300m on sales of FFr9bn. UAP could try to use its minority holding to block Suez's strategy, notably its plan to merge the administration of Nordstern and Colonia.

It remains to be seen how influential UAP will be. Winterthur failed in its legal attempt to scupper the merger. "Maybe this will give UAP a little more leverage over Colonia, but Nordstern is a very small piece in the jigsaw," said Mr Derek Elias, insurance analyst at Paribas.

Most analysts suspect UAP will be forced to resort to another ploy – threatening to raise its 6.3 per cent stake (with 10 per cent voting rights) in Suez. Mr Peyrelevade has squashed speculation about an outright bid, but UAP said guardedly that it did "not intend to substantially raise" its stake.

Mr Peyrelevade must now be pondering his next move in the chess game. "Anything could happen," said one analyst. "All we can be sure of is that he does not want to be remembered as the man who spent FFr14.3bn for nothing."

Dutch financial group up 6%

By Ronald van de Krol in Amsterdam

INTERNATIONALE Nederlanden Group, the Dutch financial services company, said net profit in the first nine months of 1992 rose by 6.6 per cent. Insurance results showed little change, but banking posted an increase of more than 9 per cent.

Net profit in the first three quarters increased to Fl 1.14bn ($630m) from Fl 1.07bn, on turnover up 3.4 per cent at Fl 35.4bn.

ING gave no figures for the third quarter alone, but a comparison of the latest results with half-year figures shows that third-quarter net profit was up 5.5 per cent at Fl 386m against Fl 366m a year earlier.

Pre-tax results in insurance were virtually flat at Fl 774m in the first nine months, an increase of 0.3 per cent from Fl 772m a year earlier.

Life insurance and non-life insurance both showed improved results, but reinsurance swung into the red with a loss of Fl 12m compared with a profit of Fl 29m a year earlier. ING blamed the loss on a deterioration on the London and Scandinavian markets.

In banking, pre-tax profits rose by 9.2 per cent to Fl 810m from Fl 742m in the first nine months of 1992.

ING, which described its nine-month results as satisfactory, forecast a "light" increase in 1992 net profit. Three months ago, it predicted that full-year results would at least match those of 1991.

Paramount plans Italian chain

By Haig Simonian in Milan

PARAMOUNT, the US entertainment group, is to invest $250m in a new multi-screen cinema chain in Italy, following the success of similar ventures in the US and the UK.

The new scheme will be a joint venture between UCI Europe, a Paramount cinema subsidiary, and Situr, the parent company of Italy's Valtur tourism and hotels group.

Sharp fall in profits for Royal Bank of Scotland

By John Gapper, Banking Correspondent

RECORD bad debt charges of £401m ($620m) led to a sharp fall in annual profits at Royal Bank of Scotland. Pre-tax profits at Scotland's biggest bank fell to £20.9m in the year to September 30, from £57.7m last year. This was in spite of a rise in profits before provisions to £469.4m from £407m.

Mr George Matheson, group chief executive, said the bank's attempt to sell Charterhouse, its merchant bank, was "taking longer than I would have liked". It has been trying to sell Charterhouse to a consortium of European banks.

The results were dominated by a poor performance from the branch banking division, which made a loss of £10.9m after provisions of £278.8m. Scottish branches made a £49m profit, but branches in England made big losses.

Direct Line Insurance, the bank's insurance sales subsidiary, and Citizens, its retail bank in New England, contributed to profits. Direct Line made a pre-tax profit of £15.1m and Citizens a pre-tax profit of £19.7m

An unchanged final dividend of 8.8p per share was paid, although earnings per share were only 1.4p.

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Kugelfischer to double losses in second half

By Christopher Parkes in Frankfurt

SECOND-HALF losses at Kugelfischer, the German bearings and industrial systems group, will be more than double the DM45m ($29m) deficit reported in the first six months, the company said yesterday.

Demand was expected to continue falling for the next few months and output would fall by 10 per cent next year, it said.

Figures for the first 10 months of this year showed an accelerating fall in sales. Turnover at the end of October was down 7.8 per cent, compared with a 7 per cent fall reported a month earlier.

The group, which recently announced the closure of its loss-making works in east Berlin with the loss of 470 jobs, said results would be affected by the costs of the shut-down and heavy losses in its other east German businesses.

Kugelfischer said total losses this year would be well over DM135m, compared with a deficit of DM80m in 1991.

Cost cutting measures so far this year have included an 8 per cent cut in the workforce, reducing the payroll to 32,000.

Pechiney to take FFr1bn charge

By William Dawkins in Paris

PECHINEY, the French state-owned aluminium and packaging group, is to make a FFr1.1bn ($205m) to FFr1.3bn restructuring charge against profits this year to cover job losses, but said yesterday it did not expect more charges in 1993.

The group, Europe's largest aluminium producer, yesterday said the 1,250 French job losses it announced recently would cost between FFr400m and FFr600m this year.

This comes on top of a FFr700m charge made in the first six months of the year to cover restructuring at Howmet, its North American turbine components producer, hit by the decline in demand from the aircraft industry.

Sales fell by 9.1 per cent in the first nine months of this year to FFr49.8bn.

Pechiney recorded a 63 per cent rise in net profits in the first half of the year, helped by exceptional gains which made up for a sharp fall in operating profits.

Navistar reduces losses to $30m as sales increase

By Laurie Morse in Chicago

NAVISTAR International, the US trucks and bus maker, yesterday announced a reduced loss for the year to October 1992.

For the fourth quarter the group lost $30m, or 15 cents a share, while losses for the full year totalled $147m, or 70 cents.

That compares with a fourth-quarter loss of $67m, or 29 cents, in 1991, and a 1991 full-year loss of $165m, or 77 cents.

The 1992 results are preliminary since the company is currently engaged in labour negotiations aimed at reducing health care and retirement costs.

Navistar said developments related to the negotiations may have an impact on the 1991-92 audited accounts.

Navistar officials and representatives of the United Auto Workers of America have said they expect to settle the benefits issue early this month.

In the fourth quarter, Navistar had sales of $1.14bn, compared with $817m in the same quarter a year ago.

During the quarter the company had an $18m charge to earnings for recalling a potentially defective steering gear shaft in some trucks and school buses.

For the year, Navistar recorded sales of $3.87bn, up 12 per cent from the $3.46bn reported for fiscal 1991.

The company is projecting a 3 per cent increase in North American demand for medium-sized trucks to 122,000 units in fiscal 1993, and a 16 per cent jump in demand for heavy trucks to 145,000 units.

Based on these projections, Navistar does not expect loss of production, other than scheduled holiday breaks, during the first quarter of the current year.

Baltica chief executive dismissed

By Hilary Barnes in Copenhagen

MR PETER Christoffersen, chief executive of the Baltica Holding insurance group since 1987, was dismissed yesterday. He will leave on December 6.

Mr Christoffersen, 46, was responsible for taking Baltica Holding into new areas of business, including banking, ambulances, vehicle recovery, property construction investments and real estate agencies.

He also masterminded a strategic alliance with France's Suez group, which holds 23 per cent of the shares in Baltica Holding. This was a defensive measure against a hostile takeover by Danish insurance rival Hafnia.

A major reorganisation of Baltica was announced in October, when the company warned of a loss of DKr2.5bn to DKr2.8bn for 1992 and raised DKr2.5bn ($410m) by selling 32 per cent of Baltica Insurance.

In the October reshuffle, Mr Christoffersen was named as prospective chief executive of Baltica Insurance, with Mr Steen Hemmingsen taking over the running of Baltica Holding.

Yesterday, however, Mr Hemmingsen was made chief executive of both Baltica Insurance and Baltica Holding.

The group's losses this year will reduce equity capital from DKr9bn to about DKr4.5bn, the group said in October.

The losses include large write-offs on property investments in Gibraltar, where Baltica has invested DKr1.8bn in residential and commercial property developments.

There were also property losses in Denmark, as well as heavy losses by Baltica Bank.

Kuwaiti banks plan to merge

INDUSTRIAL Bank of Kuwait and the Kuwait Real Estate Bank plan to merge in what would be the first success in the central bank's long campaign to reduce the number of banks in the emirate, Reuter reports from Kuwait City.

The chairmen of the two banks, Mr Saleh Mohammed al-Youssef of Industrial Bank and Mr Saad Ali al-Nahedh of Real Estate Bank, said in identical statements that the banks "have seen fit to merge ... creating a unit which is bigger, has wider aims and more diverse activities".

Analysts say both banks face problems.

Fortis records a steady 10.3% earnings increase

By Ronald van de Krol in Amsterdam

FORTIS, the Belgian-Dutch insurance and banking group, yesterday reported a 10.3 per cent increase in net profit for both the third quarter and the first nine months of the year.

Third-quarter net rose to Ecu108.1m ($86.89m) from Ecu98m, while nine-month results increased to Ecu303.9m from Ecu275.4m. Turnover in the nine-month period was up 22.7 per cent at Ecu6.5bn, helped partly by acquisitions and exchange rate movements. Without these influences, turnover showed a 13.5 per cent increase.

In the third quarter, operating profit in insurance came under pressure, falling to Ecu97.9m from Ecu102.6m, because of a decline in non-life results.

"In both Belgium and the Netherlands, the outlook for motor insurance, which is essentially cyclical, and fire insurance is less bright than was previously assumed," the company said. "Measures will inevitably have to be taken in both sectors."

Banking results advanced to Ecu26.3m from Ecu17.9m.

Canadian bank hit by loan losses provision

By Robert Gibbens in Montreal

A SPECIAL C$1bn provision for property loan losses taken in the second quarter reduced Canadian Imperial Bank of Commerce's total fiscal 1992 earnings to C$12m (US$9.4m), compared with C$811m a year earlier.

After preferred dividends, the bank suffered a net loss of 59 cents a share for the year to October 31, against net profit equal to C$3.93 a share a year earlier. The quarterly dividend rate is capped at 33 cents a share.

Fourth-quarter earnings were C$45m, or 9 cents a share, against C$225m, or C$1.09 a share, a year earlier. An additional special provision of C$150m was made.

CIBC's C$1bn write-off was announced on April 27. The bank had C$860m in loans to the Olympia & York group, about half for Canary Wharf in London and the rest for Canadian and US operations. CIBC and Royal Bank are the most exposed of the big six Canadian banks to O&Y.

The second-quarter and fourth-quarter special provisions also cover corporate bad loans in Canada and Australia.

CIBC said net non-performing loans at October 31 were C$3.1bn, or 3.1 per cent of total loans, against C$1.9bn or 2 per cent, a year earlier.

Non-interest income was up 11 per cent on the year, with strong investment banking performance, and gains in personal deposits, residential mortgages and credit card business.

Total assets at year end were C$132bn, up 9 per cent.

● Magna International, Canada's biggest independent car parts producer, sharply improved profits for the first quarter of fiscal 1993 and is raising the quarterly dividend from 10 cents to 15 cents.

Earnings rose to C$31.7m, or 76 cents a share, up 24 per cent from C$25.5m, or 92 cents, on sales of C$615m, against C$617m.

Sleeping Korean behemoth stirs

John Burton finds intense interest as Kepco opens to foreigners

KOREA Electric Power, which was officially opened to foreign shareholders last month, is normally known as a quiet behemoth.

Ever since the government offered 21 per cent of the state-run utility to the Korean public in 1989, investors have considered Kepco, the largest capitalisation on the Seoul stock market, a safe, but boring, investment.

All that changed in August when the government announced its intention to allow foreigners to acquire up to 8 per cent of Kepco. That unleashed frantic demand for the shares as domestic investors anticipated a surge of foreign buying orders.

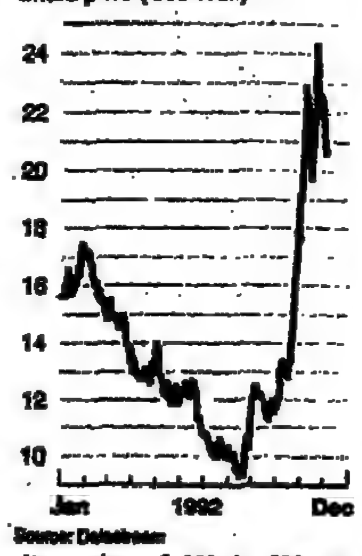
Kepco shares rose from a low of Won9,200 ($11.70) in August to Won20,600 yesterday, after hitting a peak of Won25,300 on November 24, the first day Kepco was opened to foreign investors. Kepco now accounts for 17.5 per cent of the capitalisation of the Seoul exchange against the 10 per cent share it previously claimed.

Kepco has a healthy financial structure. Annual net earnings have grown at 17 per cent on average during the past five years, although this masks profit declines in 1989 and 1990. Last year, it reported net profits of Won719bn, an increase of 18.6 per cent, on sales of Won5,702bn. Analysts expect a 20 per cent profit rise this year.

Kepco's dividend yield of 4 per cent is high by national standards. This reflects its relatively low debt/equity ratio of 90 per cent in a country where most companies have debt/equity ratios of 200 to 300 per cent.

KEPCO

Share price ('000 Won)



Source: Datastream

Interest in Kepco has been particularly strong among foreign fund managers because its large capitalisation makes it one of the few stocks on the Seoul exchange in which a single investment of several million dollars can be made without exceeding the strict limits on foreign ownership.

However, investors will be watching closely the impact of the company's construction programme, which will more than double generating capacity from 19,851MW to 47,655MW by 2001. Kepco is being forced to build new power facilities because its reserve capacity of electricity has shrunk from a surplus of 72.3 per cent to only about 5 per cent in just five years.

The slim reserve capacity means that Kepco can barely meet electricity demand during peak periods. The shortage has forced the government to introduce energy conservation measures.

The electricity shortage was ironically of the government's own making. Confronted with surplus capacity in the mid-1980s, the government encouraged consumption by cutting rates as part of an anti-inflation policy. But demand, which has risen by an average annual rate of 13 per cent since 1987, exceeded expectations.

Growth in electricity is expected to average around 9 per cent until 1997 since Korea's per capita power consumption remains low compared to other countries. Demand growth is expected to slow down thereafter to between 4.5 and 6 per cent.

To meet short-term increases in demand, Kepco is building eight liquefied natural gas and 25 coal-fired facilities, which can be constructed relatively quickly.

But the centrepiece of Kepco's expansion programme is the construction of nine nuclear plants, to be commissioned between 1995 and 2001, in addition to the nine it already operates.

South Korea is one of the few countries in the world expanding nuclear capacity. It is also one of the world's biggest users of nuclear power, which provided 47.5 per cent of electricity generated in Korea last year.

Although there is growing public criticism about nuclear power, the government prefers it as the fundamental supplier of electricity because it does not want resource-poor Korea to become dependent on foreign fuel sources.

Officials also say that nuclear plants are the cheapest source of electricity in terms of cost per megawatt of energy generated, although they are costly to construct.

The nuclear plants are expected to be built by Korean Heavy Industries and Construction, with four of the reactors supplied by ABB Combustion Engineering and two by Atomic Energy of Canada.

Kepco plans to spend Won5,000bn annually over the next 10 years on the construction programme, which will also include improving its transmission and distribution system.

The group is hoping to finance the expansion programme through annual rate increases of around 5 per cent in addition to loans from the state banks at preferential rates.

Kepco will also borrow funds abroad through bond issues, including $300m it raised through a Yankee bond issue in June. No plans have been mentioned so far of raising funds through new share issues.

Jardine Fleming predicts that the increased borrowings will raise Kepco's debt/equity ratio to almost 130 per cent by 1995 but estimates that annual earnings growth can be maintained at 20 per cent.

Other analysts are more cautious, and all agree that net earnings will not rise much above 5 per cent next year as capital costs start to bite into profits.

Proton tumbles 36% in year

PROTON, the Malaysian car manufacturer, blamed a softening domestic car market for last year's 36 per cent decline in pre-tax profits, writes Kieran Cooke in Kuala Lumpur.

Proton has a 65 per cent share of car sales in the Malaysian market. It said there had been a 15 per cent drop in overall car sales in Malaysia in the past 12 months.

Half-year, pre-tax profits were M$130.46m (US$52.1m), against M$203.3m. Proton made a pre-tax profit of M$408m on turnover of M$2.2bn in 1991-1992.

Proton is 50 per cent owned by Malaysian government interests. It was partially privatised earlier this year. The government haslifted restrictions on foreign share ownership of Proton, allowing foreign investors to hold more than 30 per cent of total equity.

Full bid for Custos abandoned

VOLVO, the Swedish motor vehicle company, and Skanska, Scandinavia's largest construction group, yesterday abandoned their bid for full control of Custos, the investment concern which they already majority own, writes Christopher Brown-Humes in Stockholm.

The two companies said the upturn in the Swedish stock market and falling interest rates, following the floating of the krona, had greatly improved Custos' financial situation. They indicated that big shareholders had rebuffed the offer, worth about SKr750m (US$109m).

But a joint bid for the minority stake in a smaller investment group, Protorp, is being continued, and the terms improved to SKr200 per share from SKr131 per share. This offer values the company at SKr2bn.

INTERNATIONAL COMPANIES AND FINANCE

Intel wins microchip dispute with AMD

By Louise Kehoe in San Francisco

SHARES in Intel surged yesterday, while Advanced Micro Devices declined sharply, following a court ruling denying AMD the right to use Intel microprocessor software after a long-running copyright dispute between the two US chipmakers.

The ruling protects Intel's exclusive rights to the microcode for its microprocessors, which are widely used in personal computers. Microcode is the internal software that controls the functions of a microprocessor chip.

AMD had claimed rights to use Intel's microcode under the terms of a 1976 licensing agreement between the two companies.

A federal judge ruled late on Wednesday, however, that the prior agreement did not give AMD the right to distribute products containing Intel microcode.

"We are very pleased with the decision," said Mr F. Thomas Dunlap, Intel vice-president and general counsel.

AMD had been expected to launch, within the next few weeks, its own version of Intel's 486 microprocessor, one *of Intel's most lucrative* products, a chip used in the latest generation of personal computers.

However, AMD said it was well advanced with development of its own 486 microcode. "As a prudent company, we had a contingency plan," said Mr W. J. Sanders, AMD chairman and chief executive.

AMD plans to launch its 486 chip in about six months. But the company said it was planning an immediate appeal of the ruling and might also seek a new trial in the microcode copyright dispute.

"No verdict and no ruling can change the underlying truth. In 1976 I negotiated in good faith and AMD paid a substantial sum for the rights that AMD is now being denied. There is no acceptable alternative for us other than to continue to fight for justice," Mr Sanders said.

AMD's appeals cannot, however, make up for lost time in the fast-paced microprocessor market. The court ruling has cost it an opportunity to compete with Intel when sales of 486 microprocessors are peaking. Personal computer manufacturers are already developing products based upon Intel's next generation microprocessor, called Pentium, which follows the 486.

Although Intel dominates the market for PC microprocessors, AMD has made big inroads over the past year.

AMD stressed the latest ruling would have no effect on its shipments of 386 chips. Last year an arbitrator awarded AMD a "permanent, royalty-free non-exclusive, non-transferable worldwide right" to Intel's 386 technology as a remedy for Intel's breach of a technology exchange agreement between the two companies. Intel is appealing the arbitrator's decision.

Intel was up $2 at $75¼ at mid-day yesterday, while AMD's stock was trading at $15¾, down from a Wednesday close of $17⅞.

Westinghouse bows to activists

By Martin Dickson in New York

WESTINGHOUSE Electric, the troubled US conglomerate, yesterday bowed to pressure from shareholder activist groups and announced a series of changes to its corporate governance provisions – the rules which determine how a company is run.

They include the establishment of a new board committee, composed entirely of outside directors, which will handle the nomination of new board members and other governance issues; and the elimination of the company's "poison pill" anti-takeover device.

However, the company did not split the roles of chairman and chief executive, which has been urged by some investors, such as Washington-based Lens Inc. The board expressed its confidence in Mr Paul Lego, chairman and chief executive, who has been criticised by some shareholders.

The measures adopted by the board underline the growing importance in the US of a movement for better corporate governance, which involves shareholder rights groups targetting poorly performing companies and demanding changes in their rule books.

Westinghouse has become a prime target of shareholder dissatisfaction, largely because of its financial services division, which has suffered heavy losses on poor real estate investment. The company last week announced plans to quit financial services, sell off four other businesses and take a $1.13bn after-tax charge in a bid to restore Wall Street's faith in its management.

It faced a barrage of shareholder resolutions on corporate governance matters to be put to a vote at its annual meeting, in April. But yesterday's action should eliminate the need for many of these so-called "proxy proposals."

Yesterday's provisions include the removal of all impediments to confidential voting on company matters by shareholders. This is a widespread demand of the activist movement, which argues that lack of confidentiality can intimidate some shareholders into backing management. Until now, Westinghouse has excluded proxy contests from confidential voting.

The company is also moving from a system where directors are elected on a staggered basis over several years – a popular anti-takeover device – to one where all will be elected on an annual basis.

The board's compensation committee, which oversees top management's pay, will continue to be composed only of outside directors but will retain independent, paying consultants to advise it.

Argentine gas sell-off a success

By Stephen Fidler in London and Haig Simonian in Milan

ARGENTINA'S state-owned gas industry has been sold to private investors in a sale valuing it at $4.2bn, almost double the anticipated value.

The results of Argentina's largest privatisation will mean $680m of cash flowing to the Argentine Treasury and the cancellation of almost $3.6bn face value of government debt, with a market value of $1.7bn.

The sale – the largest energy privatisation outside the UK – has meant splitting the state monopoly, Gas del Estado, into two transportation companies and eight distribution companies. Between 60 and 90 per cent of these companies are being sold to operators in the privatisation.

Bidding groups led by Enron of the US and Nova Corporation of Canada secured the transportation companies, while two Italian companies – Italgas and Camuzzi – were prominent bidders for distribution companies.

Three distribution companies went to a second round of bidding, including the two largest based in Buenos Aires. British Gas was said to be well positioned to win a significant stake in at least one of the two companies in the capital.

The success of the gas sale – assuming the promised payments are made – will bolster the economy minister, Mr Domingo Cavallo, whose economic programme has over the past two months faced significant pressure. The government hopes the signing, beginning on Sunday, of a debt relief deal with international banks should further aid the programme.

The size of the response to the privatisation appeared to reflect enthusiasm by international gas companies over a rare opportunity to take a significant stake in an important gas utility and also to operate the company.

Mr Carlo da Molo, chairman of Italgas, the Italian state-controlled gas distribution group which won two concessions, said that in spite of continuing economic difficulties, "Argentina is a country with great potential, in which a process of reorganisation and development is now taking place. But our commitment is cushioned by a sense of caution based on adequate profitability criteria".

Italgas said its engineers believed its two companies had the highest growth potential of any of the gas distribution areas put up for tender. Though the company holds only 25 per cent of the winning consortium, with the remainder held by the Argentine Sideco group, it will be the technical operator for distributing gas in the two regions.

The privatisation, the advisers to which were N.M. Rothschild of the UK and Goldman, Sachs of New York, entails initial tariff reductions for industries and businesses of about 18 per cent and a rise in rates for residential consumers of about 8 per cent.

The new operators will also have to buy the $157m of working capital held by the companies and take on $790m of debts. The utilities are committed to investing $582.5 over five years.

An initial public offering of minority stakes in the larger companies will follow in the international and domestic markets. Ten per cent of each will be held in trust for employees.

The aim of the government, which has been advised by the World Bank, has been to privatise and deregulate the industry at the same time. The new system, combining elements of US and UK industry regulation, allows for the free bidding by distributors for gas supplies at the well-head, but has regulated the costs for the transportation of gas, limiting yearly price increases to less than the rate of inflation through the so-called "RPI minus x" formula.

ARGENTINE GAS PRIVATISATION

Name	Cash $m (1)	Debt $m	Implicit value assets(2)	Winner
Trans. del Sur	305	258	1,211	Enron, Perez Companc, Citicorp, APDT
Trans. del Norte	66	182	431	Nova, Soldati, Techint
Dist. Metropolitana	106	291	745	2nd round (3)
Dist. BA Norte	61	252	558	2nd round (4)
Dist. Pampeana	18	217	391	Camuzzi
Dist. Litoral	27	90	174	Tractabel, Iberdrola, Bemberg
Dist. Centro	25	120	200	Italgas, Sideco
Dist. Cuyana	28	96	211	Italgas, Sideco
Dist. Noroeste	22	62	105	2nd round (5)
Dist. Sur	24	134	191	Camuzzi
Total	680	1,700	4,217	

(1) Cash plus deferred cash. (2) Includes debt assumed, working capital and arrears owed. (3) Brit. Gas, Perez Companc, Astra vs Gas Natural. (4) Brit. Gas Group vs Gas Natural. (5) Gasco (Chile), Cartellone, Banco Frances vs Seaguil vs Brit. Columbia Gas.

US retailers reveal mixed sales picture

By Nikki Tait in New York

AFTER two encouraging months, US retailers yesterday reported a diverse sales picture for November.

The figures cast fresh doubts over the Christmas season – reported to be off to a good start after Thanksgiving – and caused retail stocks generally to ease on Wall Street.

Among the biggest retailers, K mart, which takes in specialty chains and a discount store operation, saw total same-store sales fall by 1.1 per cent in November. This masked a 2.3 per cent decline in general merchandise, partly offset by a similar rise in the specialty store division.

Wal-Mart Stores, the nation's largest retailer in sales terms, also reported more modest sales growth. Same-store sales were up by 7 per cent, which compares with double-digit growth rates seen by the Arkansas-based retailer for much of this year. Same-store sales growth for the first 10 months of the fiscal year was 12 per cent.

Woolworth was another loser, with comparable domestic sales falling by 1.1 per cent, while – among the specialist retailers – The Gap reported an increase of just 1 per cent in same-store sales last month.

More positively, Sears, Roebuck posted a 5.1 per cent gain in same-store domestic sales.

Some major department store groups also fared well: Federated, saw a 5.3 per cent increase in November same-store sales, Neiman Marcus saw a 7.5 per cent rise, and May Department Stores enjoyed a 3.6 per cent advance. At J.C. Penney, there was a 5.1 per cent gain.

US cable TV operators promise brave new era

By Alan Friedman in New York

A GLIMPSE of the brave new world of American television was offered yesterday by Tele-Communications the biggest cable television operator in the US. TCI said it could provide as many as 500 television channels by 1994.

TCI said within the next two years it planned to introduce digital compression technology, which allows one standard cable channel to become 10 channels, to as many as 1m homes in the US. TCI could expand the service to as many as 10m household subscribers.

Most cable subscribers in the US now receive 30 to 40 channels. But the TCI move is likely to cause other cable operators in the US to follow.

Time Warner, another of the big US cable operators, has begun an experiment offering 150 channels to subscribers in the Queens section of New York. But the experiment is a limited one, so far.

The new technology means American television viewers could soon find themselves with a bewildering panoply of special interest stations, pay-per-view services, sports, movies and inter-active services that bring together computers and television.

Inter-active television is a priority among cable operators. The new TCI multi-channel system is expected to offer inter-active services, allowing a home viewer to press a button to vote in an opinion poll, order dinner, shop for consumer goods or play a computer game.

"Television," said Mr John Malone, president of TCI, "will never be the same."

INTERNATIONAL CAPITAL MARKETS

Gilts surge on sterling strength and firmer markets

By Sara Webb in London and Patrick Harverson in New York

UK GOVERNMENT bonds rallied strongly yesterday, gaining over a point at the long end on the combination of sterling strength and a firmer tone to the other European government bond markets.

GOVERNMENT BONDS

Dealers expressed some surprise as gilt prices surged ahead, following Wednesday's disappointing gilt auction, and pointed out that volume in the Liffe gilt future was average, with around 27,000 contracts traded.

The Bank of England auctioned £2.5bn of 8 per cent gilts due 2003 on Wednesday, but the auction failed to attract foreign investors and dealers said some of the stock had been left with marketmakers. However, dealers said yesterday that worries about the disappointing auction had faded, and the market recovered over a point mainly on the strength of sterling.

The pound ended at DM2.468/2.471, compared with DM2.434/2.436 on Wednesday. The 10¼ per cent gilt due 1997 rose from 110⅜ to 110⅝, while the 8¾ per cent gilt due 2017 rallied from 97⅝ to 98⅞ by late afternoon.

■ GERMAN government bonds gained nearly half a point helped by the combination of a favourable wage settlement and the latest German economic data.

Bund prices rose across the yield curve with short-dated paper out-performing longer-dated issues.

The Liffe bund futures contract rose from 90.85 at the opening to a high of 91.22 by late afternoon.

The announcement yesterday morning that the IG Metall union had agreed a 3.3 per cent 18-month wage deal for its 125,000 German steelworkers sparked buying interest early in the day. The settlement is below the 3.7 per cent annual inflation rate and was viewed positively by the market.

The market rallied further on the release of weak German economic data. Gross Domestic Product (GDP) fell for the second quarter in a row, dropping 0.5 per cent in the third quarter. West German industrial production fell 2.2 per cent in October and unemployment rose to 6.9 per cent in November from 6.7 per cent in October.

■ PROFIT-taking wiped out early gains in the Japanese government bond market, and bond prices ended slightly lower on the day.

The market closed before the announcement of the Gross National Product figures for the third quarter, which showed that real GNP fell 0.4 per cent. Japan's economy contracted at an annualised rate of 1.6 per cent.

Dealers pointed out that the figures are positive for the bond market.

The yield on the benchmark No 145 moved between 4.575-4.605 per cent and ended at 4.59 per cent. In the futures market, the contract opened at 107.89 and moved as high as 107.97, but dealers noted the 108 level is likely to prove a strong resistance point.

The Bank of Japan allowed open money market rates to edge lower, with the unsecured overnight call money rate slipping 1/16 to 3¾ per cent.

■ US TREASURY prices traded in a narrow range yesterday morning as dealers and investors cautiously awaited today's important jobs report.

By midday, the benchmark 30-year government bond was unchanged at 100⅝, yielding 7.561 per cent. There was also little movement at the short end of the market, where the two-year note was up 1/32 at 99⅞, yielding 4.758 per cent.

Prices eased slightly in early trading on more economically bullish news.

The latest data was a 12,000 decline in initial claims for unemployment insurance during the third week of November. The drop was bigger than expected and suggested that today's keenly-awaited employment report for November will show a small improvement in labour market conditions.

Prices recovered later, however, as dealers covered their short positions and other participants prepared their books for the jobs figures.

FT FIXED INTEREST INDICES

	Dec 3	Dec 2	Dec 1	Nov 30	Nov 27	Year ago	High *	Low *
Govt Secs (UK)	93.26	92.81	92.90	92.58	93.44	86.54	95.54	85.11
Fixed Interest	108.08	108.04	107.92	108.01	108.38	98.34	110.28	97.15

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1992. Government Securities high since compilation 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 110.28 (12/11/92), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	Dec 2	Dec 1	Nov 30	Nov 27	Nov 26
Gilt Edged Bargains	131.3	158.5	155.0	129.8	133.1
5-Day average	141.6	146.6	151.9	149.2	155.2

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	107.7867	+1.153	8.80	8.79	8.10?
BELGIUM		8.750	06/02	104.7100	+0.340	8.02	8.04	8.12
CANADA *		8.500	04/02	103.1600	+0.608	8.01	7.99	7.73?
DENMARK		9.000	11/00	99.5500	-0.200	9.08	8.98	8.83
FRANCE	BTAN	8.500	03/97	100.9558	-0.141	8.20	8.13	8.14?
	OAT	8.500	11/02	101.6450	+0.320	8.25	8.22	8.15?
GERMANY		8.000	07/02	104.0800	+0.460	7.33	7.36?	7.36?
ITALY		12.000	05/02	92.9850	+0.070	13.771	13.48	13.72?
JAPAN	No 119	4.800	06/99	101.7482	+0.103	4.45	4.40	4.41?
	No 145	5.500	03/02	105.8233	-0.039	4.59	4.61	4.63?
NETHERLANDS		8.250	06/02	104.6300	+0.270	7.50	7.45	7.56?
SPAIN		10.300	06/02	86.6000	+0.225	12.78	12.60	12.64
UK GILTS		10.000	11/96	108-25	+12/32	7.35	7.30	7.14?
		8.750	08/02	108-18	+24/32	8.39	8.38?	8.25?
		9.000	10/08	102-00	+30/32	8.71	8.76	8.74?
US TREASURY *		6.375	08/02	98-08	+0/32	6.62	6.63	6.65?
		7.625	11/22	100-23	-3/32	7.56	7.53	7.62?
ECU (French Govt)		8.500	03/02	97.9150	+0.460	8.83	8.82	8.8?

London closing, *denotes New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Ireland to borrow up to DM4bn to support punt

By Tracy Corrigan

IRELAND has arranged to borrow up to DM4bn from German banks in order to support the Irish punt in the foreign exchange markets. The package consists of a DM2bn commercial paper facility, a DM1bn overdraft facility and a DM1bn loan facility.

Ireland's National Treasury Management Agency has arranged the loans with a group of leading German banks, including the country's three largest banks, Deutsche Bank, Dresdner Bank and Commerzbank.

The government has been struggling to prop up the Irish punt within the exchange rate mechanism since September. During September, the government is believed to have spent around I£2bn supporting the currency.

While the level of the country's reserves are not known, they are likely to have been severely depleted.

Ireland made short-term borrowings in September to fund heavy intervention in the foreign exchange market, and some of those borrowings fall due shortly.

In addition, Ireland needs further funds as it continues to support the currency within the exchange rate mechanism.

This struggle is made more difficult by the political vacuum following last month's general election. A new coalition government has yet to be formed.

Short-term rates have risen as high as 100 per cent in order to stem speculation in the foreign exchange market.

Yesterday, the three-month Euro-deposit rate fell a point to 18 per cent on renewed hopes that the Bundesbank may ease German interest rates following weak German gross national product data.

Nasdaq plans to double trading capacity

IN an attempt to double trading capacity, Nasdaq plans to replace its computerised trading system in a multi-year effort costing around $100m, Reuter reports.

Nasdaq will install new hardware and software to boost the volume of trades that can be processed, cut operating costs and make it easier to introduce new trading products and dealing systems to the market.

Nasdaq said it will be able to handle up to 800m shares a day, double the current capacity. Nasdaq handled its highest volume in mid-January when trading hit 328m shares a day.

Nasdaq unveiled the overhaul – which will occur over the next five years – at the Securities Industry Association's annual meeting. To lift trading capacity, Nasdaq will replace its communications network so that its computer system operates much faster.

Warm reception for Royal Insurance £76m convertible

By Brian Bollen

ROYAL Insurance of the UK tapped the international capital markets yesterday as part of its continuing efforts to strengthen its balance sheet.

The size of its 15-year convertible subordinated convertible bond issue was governed by existing shareholders' pre-emption rights, though it was increased to £76m from £70m in response to demand.

INTERNATIONAL BONDS

The coupon was set at 7¼ per cent, at the lower end of the indicated range, and the conversion premium at 20.8 per cent, at the higher end of the range. Proceeds will be used primarily to repay existing debt.

The exercise forms part of the strategic plan pursued by Mr Richard Gamble, group chief executive, since he took over at the start of this year, to restructure debt and smooth its maturity profile, reducing an over-reliance on short-term borrowings. Previous moves have focused on restructuring businesses to release cash.

Debt at the lossmaking group stood at £426m at the end of September this year, down from £752m a year earlier, said Mr Gamble. Gearing has dropped from more than 50 per cent to 29 per cent.

The company opted for a convertible structure rather than take the undated preference share route followed by Commercial Union and General Accident.

Preference share coupons are higher than those payable on a convertible, and the coupons are effectively increased further if tax on UK profits is not sufficient to meet a company's Advance Corporation Tax liability.

The Royal will continue to look at other ways of strengthening its balance sheet by improving the structure and maturity profile of its debt, said Mr Gamble.

Elsewhere, the Paris-based Council of Europe, a regular borrower on the international markets, made its second appearance in Swiss francs in recent weeks.

Its SFr150m, 10-year, 6 per cent issue was acknowledged as being priced very aggressively, but bankers pointed out that borrowers can take advantage of year-end liquidity in Switzerland to launch issues on tighter terms than might otherwise be acceptable.

Broadly speaking, the issue was well received, although bankers said investors would prefer five-year paper from top quality names. Unlike most supranational agencies, the Council of Europe does not have a triple-A rating, but it benefited from a shortage of product and continued expectation of lower interest rates. Bankers are forecasting that the next triple-A rated issue will have a coupon of below 6 per cent.

The Province of Ontario's SFr300m, 10-year issue marks the first time it has tapped the Swiss market in its own name, said lead manager Crédit Suisse.

Proceeds were swapped into floating rate US dollars.

● BANCO Exterior de Espana filed a registration statement with the US Securities & Exchange Commission for $150m of non-cumulative perpetual preference shares at $25 a share.

Banco Exterior will offer the shares through Extecapital Ltd, a wholly-owned Cayman Islands subsidiary. Merrill Lynch is lead manager.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
D-MARKS						
Finnish Export Credit(a)	50	8	-	1995	-	Merrill Lynch Bank
ABN Amro Bank(Luxembourg)	20	7.25	101	1998	-	ABN Amro Bk (Deutsch)
STERLING						
Royal Insurance(b)§	76	7.25	100	2007	2½/1½%	Barclays de Zoete Wedd
SWISS FRANCS						
Province of Ontario	300	6.25	102	2003	-	Crédit Suisse
Council of Europe	150	6	101.5	2003	-	Banca del Gottardo
Castle Co.**	50	6.5	101	1997	-	Fuji Bank(Schweiz)

Final terms and non-callable unless stated. **Private placement. §Convertible. †Floating rate note. a) Issue launched on 15/10/92 has been increased to DM250m. Price, fees undisclosed. b) Conversion price is 312.8p, a 20.8% premium. Coupon payable semi-annually. Callable after 12/7/98 at par.

Abbey National debt rating downgraded

By Richard Waters

THE weak state of the UK economy and the depressed housing market has led Moody's Investors Service, the US rating agency, to downgrade one of the country's two biggest home loan institutions and consider cutting the credit rating of the other.

Moody's said changes in the market for housing finance in the UK meant the lenders were facing a long-term deterioration in their credit quality.

Moody's long-term debt rating of Abbey National, which turned itself from a building society into a bank two years ago, was cut from AA1 to AA2 yesterday. The AA1 rating of Halifax, the biggest UK building society, has been put under review for possible downgrade.

The downgrading of Abbey National brings Moody's rating into line with those of Ibca, the London-based agency, and Standard & Poor's, both of which rate it AA.

Commenting on the Halifax review, which affects $4.5bn of long-term debt, Moody's said it will focus on "the impact of the weak UK economy and housing market and Halifax's asset quality, as well as on the way in which changing market dynamics may affect the building society's future financial flexibility."

Moody's said both institutions would be affected by long-term changes in the housing market. "The inflationary cushion which has always helped to keep risks in this kind of lending down is changing," said Ms Angela Jameson, a senior analyst at Moody's in New York. She said losses on mortgage indemnity insurance would lead insurers to provide less comprehensive cover in future, leaving lenders more exposed to losses.

Moody's decision affects $7.5bn of debt issued by Abbey National.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on December 3

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN 9 1/8 94	200	105¼	106⅛	-⅛	5.46
ALBERTA PROVINCE 9 3/8 95	600	108½	108⅞		6.08
AUSTRIA 8 1/2 00	400	107	107⅜		7.21
[illegible]					

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ARBED 7 1/2 95 LFr	600	96⅛	97⅛	+⅛	9.08
ECSC 7 3/4 94 LFr	1000	99¼	100⅛		8.23
WORLD BANK 8 96 LFr	1000	99¾	100⅜		8.06
[illegible]					

[illegible]

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RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	54	13	13
Other Fixed Interest	9	5	1
Commercial, Industrial	250	232	940
Financial & Property	124	138	540
Oil & Gas	11	16	58
Plantations	0	0	9
Mines	37	20	84
Others	19	52	46
Totals	504	476	1,691

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

a Annualised dividend. b Figures based on prospectus estimates. g Assumed dividend and yield. q Earnings based on preliminary figures. e Forecast or estimated annualised dividend rate, cover based on previous year's earnings. x Ex-dividend. F Dividend and yield based on prospectus or other official estimates for 1992-93. H Dividend and yield based on prospectus or other official estimates for 1993. L Estimated annualised dividend, cover and p/e based on latest annual earnings. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Issued by way of rights. † Introduction. § Placing price. †† Reintroduction. ¶ Unlisted securities market. ♦ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

TRADITIONAL OPTIONS

● First Dealings Nov. 23
● Last Dealings Dec. 4
● Last Declarations Feb. 25
● For settlement March 8

3-month call rate indications are shown in Saturday editions.

Calls in Ferranti Intl., A. Proudfoot, Proteus Intl., Rhino, Royal Insce. and Tarmac. Put in Regalian Props.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

[illegible]

December 3 Total Contracts 30,746
Calls 16,786 Puts 13,960
FT-SE Index Calls 5,829 Puts 4,545
Euro FT-SE Calls 230 Puts 542
*Underlying security price. † Long dated expiry months. Premiums shown are based on closing offer prices.

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES

		Thu Dec 3	Day's change %	Wed Dec 2	Accrued interest	xd adj 1992 to date
	British Government					
1	Up to 5 years (22)	128.27	+0.23	127.98	2.62	10.99
2	5-15 years (25)	145.35	+0.65	144.41	2.89	11.85
3	Over 15 years (8)	152.24	+0.97	150.79	3.11	10.57
4	Irredeemables (6)	168.13	+0.18	167.83	1.11	13.68
5	All stocks (61)	141.94	+0.54	141.18	2.84	11.64
	Index-Linked					
6	Up to 5 years (2)	183.69	....	183.68	0.67	3.68
7	Over 5 years (10)	164.69	-0.24	165.09	1.29	4.04
8	All stocks (12)	166.04	-0.21	166.38	1.21	3.96
9	Debs & Loans (62)	122.07	+0.33	121.68	2.30	11.13

AVERAGE GROSS REDEMPTION YIELDS

			Thu Dec 3	Wed Dec 2	Year ago (approx.)
	British Government				
1	Low	5 years	7.28	7.33	8.80
2	Coupons	15 years	8.29	8.39	9.47
3	(0%-7¾%)	20 years	8.55	8.65	9.47
4	Medium	5 years	7.62	7.72	9.86
5	Coupons	15 years	8.75	8.86	9.60
6	(8%-10¾%)	20 years	8.92	9.02	9.55
7	High	5 years	7.84	7.94	10.08
8	Coupons	15 years	9.06	9.16	9.69
9	(11%-)	20 years	9.14	9.25	9.60
10	Irredeemables (Flat Yield)		9.01	9.04	9.67
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs	2.56	2.55	3.94
12	Inflation rate 5%	Over 5 yrs	3.90	3.88	4.31
13	Inflation rate 10%	Up to 5 yrs	1.77	1.76	3.32
14	Inflation rate 10%	Over 5 yrs	3.72	3.70	4.13
15	Debs & Loans	5 years	9.02	9.06	11.37
16		15 years	10.01	10.06	11.20
17		25 years	10.17	10.20	11.03

Photo processing restrains LIG

By Maggie Urry

LONDON INTERNATIONAL Group, the condoms, health and beauty products and photo-processing group, reported a rise in pre-tax profits from £7.1m to £15.5m for its half year to September 30.

However, the previous year's figure was depressed by an exceptional charge of £13.4m, restated from an extraordinary debit. gained 1p to 235p.

Profits were depressed by a sharp fall in the photo-processing side, though Mr Alan Woltz, chairman, said: "I am pleased with the performance on our health and personal products divisions, which continue to demonstrate the fundamental strength of our brands in a recession."

He added that LIG saw no sign of an end to the recession and was planning accordingly.

He also announced that Mr David Harbut, finance director, would retire at the financial year end of March 31 1993. A search for a successor was under way.

Group turnover rose from £190m to £194.8m. Operating profits were down 11 per cent to £23.4m. Net interest charges of £6.9m (£4.6m) reflected higher borrowings.

Net debt was £134.1m at September 30, up from £94.8m a year earlier and £107m at March 31. The group aims to reduce debt to the March level again by the year end although exchange rate movements were adverse.

Earnings per share came out at 6.37p, against 8.27p before exceptionals or 2.64p afterwards. The interim dividend is unchanged at 3.2p.

Health and personal products increased operating profits from £13.6m to £16.1m, on sales up slightly at £120.9m (£119.1m), showing further margin growth. Good results came from condoms, surgical and industrial gloves as well as

Alan Woltz: pleased with health and personal products

products such as Buttercup cough syrups.

Photo-processing profits fell from £11.5m to £6.3m as falling volumes reduced the efficiency of the plants and competitors cut prices in an attempt to keep market share. Another three plants are to close, costing 200 jobs and a second half exceptional charge of £2m.

● COMMENT

The LIG story is beginning to be told and understood. Continual cost cutting in photo-processing is getting the break-even rate down to a level where an eventual recovery in volume should yield bumper profits. But in the short term, last year's second-half loss of £5.6m in that division could be repeated this time, unless there is a white Christmas, which would get people snapping. Meanwhile, the other side of the business is doing well despite the recession. Imaginative marketing on brands is having a good effect on margins. A repeat of last year's £39.4m pre-exceptionals, would give a p/e under 15. The shares have little downside, and should begin to perform when signs of economic recovery appear.

Murray Enterprise asset value 40% ahead

By Philip Coggan, Personal Finance Editor

MURRAY ENTERPRISE yesterday belied recent problems in the venture capital trust sector with a 40 per cent rise in net asset value per share over the year to September 30.

The recession's impact on small businesses and the difficulty of valuing unquoted holdings has caused problems at investment trusts such as Drayton Consolidated and Gresham House.

Murray Enterprise's portfolio was strengthened by the flotation of two of its US investments, Fleet Call and Centigram. Four unlisted investments were also realised for a total consideration of £1.67m.

Since the end of the financial period, the directors have announced that due to the strengthening of the US dollar and a rise in share prices of two of the US holdings, the net asset value has increased to 162p per share.

During the year, the trust redeemed some £2.48m of loan stock, which increased net assets per share by 5.25p.

The trust's aim is capital growth, not income. Nevertheless, the trust received a one-off dividend from an unlisted investment last year.

Since investment trust rules require the distribution of income, Murray Enterprise will make a dividend payment of £125,000 in July 1993. The amount per share will not be known until it is seen how many loan stock holders convert into ordinary shares at forthcoming conversion dates.

Improved margins boost Scottish Hydro to £40.6m

By James Buxton, Scottish Correspondent

SCOTTISH Hydro-Electric, the smaller of the two Scottish electricity companies, increased its pre-tax profit by two-thirds to £40.6m in the half year to September 30, thanks to higher volumes and better profit margins.

Turnover of the integrated utility, which generates, transmits and distributes electricity, increased 6.8 per cent to £301m (£281.9m).

Earnings rose 55 per cent to 7.93p and the interim dividend is being lifted by 10.8 per cent to 3.6p.

Hydro-Electric's sales volume in Scotland showed underlying growth of 2 per cent, and there was a 20 per cent rise to £80.3m in sales to customers in England and Wales.

The operating margin improved to 16.7 per cent, thanks partly to the arrival of "sour" untreated gas from the Miller field in the North Sea at the company's Peterhead power station, and partly to the high Scottish summer rainfall, which permitted more hydro-electric generation. But these lower costs were partly offset by higher bills from Scottish Nuclear.

Interest charges fell to £9.7m (£15.7m) as gearing was cut to 20.6 per cent through strong cashflow. It plans to redeem £116m of government debt, saving £1m in interest this year and £4m thereafter, although a redemption charge of £12.5m will appear in the full year's accounts.

● COMMENT

Hydro-Electric has the second lowest tariffs in Britain and its sales in the English market will increase as the interconnector upgrade and Keadby come onstream. Like Scottish Power, it is better insulated than other power companies from the present energy review. If the government were to make consumers pay more for electricity to support the coal industry, Hydro-Electric would get higher income. If it tried to limit the pass-through to the consumer of the costs of gas plants like Keadby, the burden would fall on the regional generators, and Hydro-Electric is not a regional company. Analysts forecast full-year pre-tax profits of between £142m and £146m, and a full-year dividend of about 11.3p, compared with this year's 10.16p. The shares closed yesterday up 3p at 240p. With another 70p to be paid up next May, gross dividend yield on a fully paid basis is 4.8 per cent, reflecting the greater potential of the Scottish companies. The shares should be bought.

Smith New Court falls 11% halfway to £6.7m

By Richard Waters

A QUIET period in the UK equity market in early summer accounted for a decline in first-half profits at Smith New Court, the securities house.

The company, one of the UK's biggest market makers, reported profits down 10.7 per cent from £7.5m to £6.7m for the six months to October 30. The interim dividend is held at 1p, in line with the company's policy of producing a steady dividend unaffected by fluctuations in financial market activity.

A quiet period in June and July in the UK equity market - still Smith's most important market, despite expansion overseas in recent years - accounted for the dip in profits, said Mr Michael Marks, chief executive. He added, though, that a renewed burst of activity in the UK stock market after sterling left the ERM in the middle of September had brought a strong end to the half year.

Profits were also bolstered by "good volumes in Hong Kong and good volumes and a reasonable amount of business in New York," he added. The sharp decline in Hong Kong share prices since the end of the half-year had not hurt the company, he said.

Earnings were 7.2p (7.4p).

Greycoat £39m in red as property losses take toll

By Peter Pearse

PRE-TAX losses at Greycoat, the property investment company which in September rescinded its recommendation to pay the 2.9p final dividend for the year to March 31 only two days before shareholders were due to approve it, grew sharply from £5.8m to £39.2m in the six months to September 30.

The interim dividend is passed (2p). No preference dividend was paid on October 1; nor is one likely on April 1.

However, Mr Richard Guignard, managing director, finance, said his company was "a million miles away from Rosehaugh", the property company that called in receivers this week.

Greycoat's operating profits declined to £16.1m (£17.7m), but there was a loss of £13m from properties with a book value of £85.8m sold for £72.8m, a loss of £15m from the £27.5m sale of its interest in Finsbury Avenue, and £7m (£8m) provisions against properties at cost.

Mr Guignard said Greycoat's aim was to pay down its debt via the "not reckless" sale of assets, adding that, unlike Rosehaugh, its assets were in excess of its debts.

Losses per share emerged at 47.4p (12p).

Hanson's US arm shows 15% growth

By Roland Rudd

HANSON's North American arm, Hanson Industries, reported the biggest increase in trading profits, up 15 per cent from £494m to £567m on sales of £4.1bn against £3.5bn in the year to September 30.

The US accounts for 51 per cent of group operating profits compared with 42 per cent from the UK and the balance from the rest of the world.

The results included a 10-month contribution from Beazer, which made only a £1m net profit, and a full-year's contribution from Cavenham Forest Industries, acquired in 1990.

Although the group is continuing to look for further acquisitions in the US Lord White, chairman of Hanson Industries, said that with the US stock market at historically high levels, acquisition costs remained high.

Hanson's businesses are divided under three headings: industrial, consumer and building products.

Industrial products, which are based mainly in the US, reported the following results:

● Coal mining's trading profit fell to £157m (£170m) on reduced sales of £1bn (£1.1bn).

● Chemicals showed a lower trading profit of £116m (£136m) on sales of £543m (£563m).

● Material Handling saw profits decline to £42m (£49m) on lower sales of £258m (£276m).

● Gold mining, in spite of record production, reported a fall in trading profits to £29m (£38m) on increased sales of £106m (£98m).

● Other industrial products reported increased profits of £86m (£58m) on sales of £802m (£772m).

Consumer products are divided between Imperial Tobacco in the UK and other products, mostly in the US.

Imperial Tobacco reported record profits of £280m (£240m) on sales of £2.98bn (£2.67bn.)

Other consumer products, which include the US brand names of Rexair vacuum cleaners and Farberware stainless steel cookware, saw profits rise to £100m (£79m) on sales of £650m (£616m).

Building products are divided into three divisions

● Aggregates saw its profits fall to £81m (£85m) on sales of £1.12bn (£612m).

● Forest products and lumber increased profits to £69m (£44m) on sales of £221m (£178m).

● Housebuilding reported its first profits of £45m on sales of £338m.

● Other building products saw profits increase to £72m (£66m) on sales of £677m (£671m).

Yorkshire boost as Metro Radio advances 10%

Strong growth in its Yorkshire advertising revenue helped Metro Radio Group, the USM-quoted local radio station operator, boost turnover to £15.15m in the 12 months to September 30, from £12.82 in the previous year, writes Chris Tighe.

The Tyneside-based group yesterday reported a 12.9 per cent increase in advertising revenue to £12.64m (£11.2m), and 10 per cent rise in pre-tax profits to £1.86m (£1.69m).

Earnings per share rose slightly to 7.5p (7.2p); total net dividend is maintained at 5p.

Local and regional advertising revenue grew by 18.7 per cent and national revenue 2.3 per cent. In Yorkshire alone it was up 30 per cent.

Mr John Josephs, finance director, who becomes group managing director on January 1, said gearing at year end was just over 100 per cent. This followed capital expenditure during the year of £1.1m.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Control Tech	fin	4.7	Feb 15	4.35	6.85	6.5
Eastern Electric	int	5.5	Mar 23	4.85	-	16.7
GrandMet	fin	7.7	Apr 13	7.15	12.3	11.35
Greycoat	int	nil	-	2.3	-	2.3
Hanson	int	2.85	Jan 4	-	-	-
Holmes & March	fin	nil	-	nil	nil	3.3
Johnson Matthey	int	3.2	Feb 1	3	-	9.65
Latham (James)	int	1.5	Feb 11	1.5	-	3.75
London Intl	int	3.2	Apr 6	3.2	-	9.45
Metro Radio §	fin	3.5	Jan 20	3.5	5	5
Murray Ents	fin	1.89	Jul 30	3.551	1.89	3.551
Royal Bank Scot	fin	6	Feb 26	6	8.8	8.8
Scapa	int	1.6	Feb 12	1.52	-	5.36
Scottish Hydro	int	3.6	Mar 24	3.25	-	10.16
Severn Trent	int	7	Apr 1	6.4	-	19.3
Shanks & McEwan	int	2.24	Jan 20	2.24	-	5.68
Smith New Court	int	1	Feb 19	1	-	4.5
Sylton	int	3.15	Feb 9	3.15	-	9.45

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock.

COMPANY NEWS: UK

Johnson Matthey edges up 3%

By Kenneth Gooding, Mining Correspondent

JOHNSON MATTHEY, the precious metals group, lifted pre-tax profits for the half-year to end-September by 3 per cent from £32.2m to £33.2m and is showing confidence about the second half by raising its interim dividend from 3p to 3.2p a share.

"We have shown we can generate profits growth even in these difficult times and I am sure this growth will be even sharper when the world's major economies finally emerge from recession," said Mr David Davies, chairman. But he said there was no sign yet of the world-wide recession coming to an end.

JM's share price, which was up by 9p on Wednesday, rose another 4p to 468p after the news yesterday.

The group also reported:

- An extension to its exclusive marketing contract with Rustenburg of South Africa, the world's biggest platinum producer, taking a relationship that started in the 1920s well into the next century.
- The completed sale of its 50 per cent stake in the Tanaka Matthey former joint venture in Japan. This raised about £20m and produced a pre-tax profit of roughly £4.5m. The proceeds will help finance a new $60m (£39m) car catalyst technical centre in Japan with Japanese management.
- It had won a four-year contract to supply Honda in North America with an annual 1m car anti-pollution catalysts. Mr Richard Wakeling, chief executive, said this contract was won because JM had advanced technology to offer and would double to 18 per cent the company's share of supply of catalysts to Japanese car makers. JM would add a new production line to its catalyst plant in Philadelphia for the Honda business.

Mr Wakeling said JM's £80m, three-year rationalisation programme was almost at an end and there would be no more charges in this respect. Cost savings were running at £18m a year and in six to nine months would be an annual £22m to £23m.

JM will continue to spend heavily on research and development – about £20m has been allocated this year. It will concentrate mainly on the autocatalyst, electronics materials and biomedical businesses.

Mr Davies said the highlight of the first half was the excellent performance of the catalytic systems division, where operating profits rose to £12.9m (£10.6m).

Turnover fell from £918.9m to £895.1m, but Mr Davies suggested net revenues were the true indicator of the level of business. These rose from £150.1m to £152.8m. Earnings per share rose to 12.1p (11.5p).

David Davies: profits growth in spite of difficult times

Shanks & McEwan slips to £15.8m

By Richard Gourley

SHANKS & McEwan, the Glasgow-based waste management company, yesterday reported only a 5.5 per cent downturn in interim pre-tax profits in spite of being unable to pass on increased costs of environmental control.

However, the recession sharply increased the group's interest charge as collection of debts dramatically slowed.

Pre-tax profits in the six months to September fell from £16.73m to £15.81m on sales up 2 per cent at £78.1m. The interim dividend is to be maintained at 2.24p.

In the largest dry waste division Shanks made £7.43m after interest, up 2.5 per cent and with an increased margin. Mr Peter Runciman, the chairman who will be stepping down later this month, said new regulations under the Environment Protection Act were bound to benefit Shanks.

"The new environmental legislation is a powerful force in directing more waste towards high standards of disposal," he said. In the environmental services division, which deals with high temperature destruction of hazardous wastes, sales increased 8 per cent but profits of £4.58m were down 5.8 per cent as Shanks was unable to pass on the cost of higher environmental standards.

Debt doubled to £16.45m during the period, almost entirely due to later payment of work in progress in the construction services division.

"Being a Scottish-based company with a Presbyterian ethos, we would not like to see gearing go much higher," Mr Runciman said.

● COMMENT

It would take a brave man to call the turn in the UK's waste management sector. Ravaged by price cutting, falling dry waste volumes and higher costs of meeting stricter environment controls, investors have had ample reason to be shell-shocked. Perhaps too much hope is vested in the removal of capacity that might follow the introduction of new regulations next April. It is simply too early to judge how this might pan out. But judging by what Shanks and Biffa – Severn Trent's waste division – said yesterday about improved or maintained margins, the sector may now have found a bottom. It is premature to think multiples will return to the crazy levels of three years ago, when Shanks traded on a 46 times earnings multiple. But with Shanks likely to make £28m pre-tax at the full year, or 11.4p of earnings, the shares should probably be on a greater premium to the market.

See People

Wickes calls for £10m to fund retail expansion

By Peggy Hollinger

WICKES, the do-it-yourself retailer which was rescued last year with a £42.6m rights issue, yesterday called on investors to fund a £10m retail expansion in the UK and continental Europe.

The group, which operates 102 stores in the UK, Belgium, Holland and France, announced plans for 17 new outlets to be opened next year.

All but two would be opened in the UK and some 350 new jobs would be created as a result.

Stockbrokers SG Warburgs yesterday placed 13.5m new shares with institutions at 72½p, raising a total of £9.8m, to fund the expansion.

The new shares represent less than 5 per cent of the existing equity. Wickes' shares closed last night 2p down at 75p.

Mr Henry Sweetbaum, chairman, said the group was taking the opportunity to expand when sites were cheap, in spite of tough trading conditions.

"We are not looking at the economy through rose-coloured spectacles in 1993, but we do expect some recovery in 1994," he said.

Wickes, which incurred losses of £7m last year, is forecast to report profits of between £8m and £8.5m for the year to the end of December.

Debt is expected to be lower than the £84m reported at the half-way stage.

Interest costs hold back Severn Trent to 3% rise

By Bronwen Maddox, Environment Correspondent

SEVERN TRENT, the Midlands water and sewerage group, saw half-year pre-tax profits held to a 3 per cent rise by interest charges incurred on its heavy investment in water treatment and by the impact of recession on waste management.

Nevertheless, profits of £140.8m (£136.7m) for the six months to September 30 were slightly ahead of City expectations. That, together with the 9.4 per cent rise in the interim dividend to 7p (6.4p), helped the shares rise 1p to 445p.

Mr Roderick Paul, chief executive, said: "The recession is real and I don't see it ending. It doesn't worry me – I'd just like it to be different".

Water and sewerage price increases and a full six months contribution from Biffa, the waste management company acquired for £212m in May 1991, pushed group turnover up by 16.2 per cent to £459.1m (£395.2m).

Operating profits from the core water and sewerage business rose by 11.7 per cent to £149m (£127.8m) as operating margins rose from 37.5 per cent to 39.7 per cent. Severn Trent said that cost savings of £5.5m were made in the half year, including a 1 per cent cut in staff to 7,400.

Operating profits in Biffa rose to £6m (£5.4m) but on a comparable basis for a full six months this represented a fall of more than 10 per cent.

Operating profit on other businesses – water and waste services in Belgium and the US – rose to £1.6m (£1.2m) after a £600,000 contribution from recent acquisitions.

The fall in profits on a comparable basis was due to the costs incurred in pitching for US municipal contracts, Mr Paul said.

Corporate overheads fell to 4.8m (£5m) because "we've been attacking all kinds of costs, and spending less on the annual general meeting and paraphernalia", he added.

The interest payable of £11m, compared with £7.3m interest received. It was incurred on debt of £290m at end-September, against £170m in March and £36m in September 1991.

Earnings improved by 2.7 per cent to 37.5p (36.5p) per share.

● COMMENT

It is not news by now that Biffa is unlikely to make the profits envisaged at the time of acquisition for several years. Its £6m profits in the half year covered only about half the interest charged on its acquisition cost, but its dilutive effect on earnings appears largely to be in the share price. Although interest charges will hold back profit growth, the peak spending will soon be passed. Barring further disappointment in the non-core businesses, £275m pre-tax profits and earnings per share of 70.7p could be achievable for the full year. The dividend cover is still one of the highest in the sector and if Severn pays a full-year dividend of 21p (19.3p), that may give its shares reason to do better than the sector.

Inntrepreneur £157m in the red

By Philip Rawstorne

INNTREPRENEUR Estates, the Grand Metropolitan/Courage pubs joint venture, incurred a pre-tax loss of £157m in the year to September 30.

GrandMet disclosed yesterday that IEL's 6,800 pubs achieved a trading profit of £162m but interest charges of £203m on the company's £1.3bn debt resulted in an operating loss of £28m.

A revaluation of IEL's property in September showed a reduction of £234m in the value of the estate over the year to £2.17bn.

Half of the deficit was charged against GrandMet's IEL revaluation reserve of £260m and the rest charged to IEL's profit and loss accounts.

Apart from meeting IEL's operating loss of £26m, GrandMet and Courage have each injected a further £32m cash into the venture to ensure compliance with banking covenants.

With two-thirds of the pubs now converted to 20-year leases, GrandMet said that operations were in line with forecasts.

In what Sir Allen Sheppard, GrandMet's chairman and chief executive, described as "one of the worst economic environments of our 30-year history", disposal of peripheral businesses enabled the group to reduce its debt by £158m to £2.44bn and gearing from 75 per cent to 64 per cent. Interest charges fell from £171m to £94m.

Alexon warns of downturn

By Jane Fuller

DISAPPOINTING sales of Dash leisure wear led Alexon Group to issue a profit warning yesterday, and the share price fell a further 27p to 98p.

At that level it is less than a quarter of the 444p high hit in September last year, a few months after its demerger from Claremont Garments (Holdings), the Marks and Spencer supplier.

Alexon said that although autumn trading started well, sales had been disappointing since September 16, particularly in Dash.

Analysts downgraded their profit forecasts from £7m to about £4m pre-tax, against last year's £11.3m. They also pencilled in a dividend cut. One forecast that the final would be cut from 7.6p to 3p.

B Elliott returns to SE with package to cut debt

By Matthew Curtin

SHARES in B Elliott, the struggling engineering group, were relisted yesterday with the announcement of a refinancing package, including a £16.3m debt-equity swap.

The effect is to reduce the group's debt by £27m, and to provide the base from which it can concentrate on its profitable businesses, specialist machine tool manufacture and electrical engineering.

Reconstruction was triggered by the collapse of the UK and European machine tool trade, its core business in the past. Share trading resumed at 3p, giving a market value of £1.6m, compared with 80p and £45m 18 months ago. Proposals include a 20-for-1 conversion of ordinary share capital and a £2.5m placing and open offer.

Falkner Moller Partners, a development capital group, and funds managed by Foreign & Colonial Ventures and the Independent Investment Company will subscribe in cash for 15.6m shares to raise £9.5m. The subscription gives Falkner a 40 to 46.7 per cent stale in Elliott, but the Takeover Panel has waived any requirement that Falkner make a general cash offer to all shareholders.

Elliott's bankers will convert £16.3m of debt into new ordinary and preference shares.

Mr Michael Frye, chief executive, said Elliott had successfully reconstructed the business after demand for machine tools had come to a standstill – "the worst conditions in the industry since the 1930s".

Elliott reported a pre-tax loss of £487,000 (£106,000), on turnover of £45.8m (£56m). Operating profit improved to £2.15m (£1.2m) but interest charges rose to £2.65m (£1.27m). There is no interim dividend.

Losses per share were 2.36p (3.64p).

Interim profits buoyed by significant cost cutting and reduced interest charges

Eastern Electricity surges by 69%

By Paul Taylor

EASTERN ELECTRICITY reported a 69 per cent increase in interim pre-tax profits yesterday buoyed by significant cost cutting and reduced net interest expense.

Profits in the six months to September 30 increased to £26.1m compared with £15.4m last time on turnover which edged higher to £830.2m (£821.7m).

The sharp increase in pre-tax profits was underpinned by a jump in operating profits which grew to £31.5m (£26m) and the decline in interest costs from £16.9m to £12.4m.

Earnings per share rose to 6.9p against 4.3p and the group plans an increased interim dividend of 5.5p (4.85p).

Commenting on the results, Mr James Smith, chairman and chief executive, said: "The increase in operating profit reflects the benefit of our cost reduction programmes and the continued strategic development of our portfolio of electricity purchase contracts."

He added that the group also saw a useful increase in sales to the competitive non-franchise market.

"Profit before tax and earning per share benefited significantly from reduced interest charges. We are confident of achieving satisfactory results for the full year."

In the core electricity distribution business net units distributed fell by 1.9 per cent, although after adjustments for weather differences and other factors the underlying level of distribution was only marginally lower.

Electricity sales to domestic and industrial customers dropped but were offset by a slight gain in units distributed to commercial customers.

The most significant factor affecting performance, however, was the tight control of costs.

In particular, increases in costs of distribution were again kept below the rate of inflation while 400 jobs out of a total of 8,000 have been lost in the last 12 months.

Earlier this week the group announced it was seeking a further 450 voluntary early retirements within the next three months.

Capital expenditure, which totalled £38m in the first half, has been reduced in line with a decrease in new business, mainly reflecting the impact of the recession on new house-building.

● COMMENT

Eastern has the lowest customer tariffs and the lowest added costs per customer among the 12 regional electricity companies and is clearly determined to maintain this edge.

Mr John Devaney, the group's new managing director, has a reputation as an effective cost-cutter and has already set to work.This year pre-tax profits could reach £173m and earnings could reach 45.5.

Assuming a dividend increase to 18.7p the shares are on a high prospective yield of 6.2 per cent reflecting caution over Eastern's role as an industry leader.

James Smith: results benefited from reduced interest charges

Spring Ram shares fall again

By Jane Fuller

THE SHARE price of Spring Ram Corporation, the kitchens and bathrooms group, fell 11½p yesterday to 89p following a press report on share selling and a downgraded profit forecast.

The group's market value has collapsed from about £570m to £325m since news emerged on November 6 of false accounting at its Balterley Bathrooms subsidiary.

Yesterday's report in the Daily Mail suggested that British Steel pension fund had sold a tranche of shares. This turned out to be untrue.

County NatWest said it had placed 8.2m shares on Wednesday at 98p. "We did it in six minutes and it was oversubscribed," said Mr Angus Phaure, building materials analyst.

However, he had downgraded his profit forecast for this year from £42.5m to £40m, before exceptional items. These will include additional losses of up to £3.5m at Balterley offset by a £5.8m gain on the sale of unused ACT capacity.

A pre-tax figure of £40m would represent a 6.5 per cent increase on last year's £37.6m.

Asked about current trading, Mr Stuart Greenwood, finance director, said the group was operating in tough markets. "December is very important to us and all of that is before us."

Over the next couple of weeks directors will meet shareholders and analysts to answer questions about Balterley, where a recurring question has been: why is the loss so big – £5.6m in a subsidiary that only turned over £10m?

Mr Greenwood said that the number was a maximum and the problem went back to 1989.

He said the figure would include all the factors leading to an overstatement of profits: stock quantities, stock values, invoices, accruals and so on.

Balterley had apparently been building up stock rapidly – from £1.6m to £3.85m during 1990 and to more than £7m by the end of last year, but the build-up was illusory.

Questions may also be asked about share sales by two directors in April. The company has said it thought the Balterley problem had been dealt with by then. The much greater extent of the falsification was not discovered until May.

Syltone warns of halt to year-end profit growth

By Matthew Curtin

SYLTONE, the transport engineering group which makes ancillary systems for trucks, warned yesterday that six years of steady profit growth were likely to come to a halt by the March 1993 year-end because of recession in the UK and Europe.

Syltone shares fell 15p to 248p on the announcement.

Although the group reported a 4 per cent increase in pre-tax profit to £1.22m (£1.17m) in the half-year to September, Mr Mike Clewes, finance director, said sales to Europe which had sustained Syltone through the UK recession, had dried up in the last quarter.

Turnover amounted to £17.35m against £16.94m.

Mr John Marsh, managing director, said: "The current six months are going to be rough, but I've no problems about the future from then on." The group's UK business was picking up and the devaluation of sterling would lift exports, he stated.

In addition, Mr Marsh pointed out that new products were being launched, operations in the Middle East and Far East were making slow but steady progress, and the balance sheet was strong.

Trading profit was unchanged at £1.3m while the pre-tax figure was after lower interest charges of £78,000 (£117,000).

The interim dividend is held at 3.15p, but earnings per share slipped to 8.25p (8.4p).

Control Techniques rises 50% to £6.22m

By Paul Taylor

CONTROL TECHNIQUES, the Powys-based electronic drives group, reported a 50 per cent increase in full year pre-tax profits yesterday, and announced plans for a significant expansion of its overseas marketing and sales operations.

Pre-tax profits increased from £4.15m to £6.22m in the year to September 30 after rationalisation and closure costs of £1.02m, mainly related to the sale of its process control division.

Turnover grew by 26 per cent to £88m largely reflecting the acquisition of ICD Drives in the US last year. Excluding ICD, turnover grew by 3 per cent. Mr Trevor Wheatley, chairman, said the integration of ICD had proved costly but was now nearing completion.

Earnings per share increased to 9.7p (7.7p) and a proposed final dividend of 4.7p makes a 6.85p (6.5p) total.

Mr Wheatley said the strategy of growth by acquisition in order to reach the "critical mass" in the core manufacturing business had been achieved, together with a streamlined and automated manufacturing capability.

As a result, the group planned to focus on organic growth by opening a further 30 sales and marketing CT Drive Centres overseas in the next couple of years. Currently it has 15 overseas offices with another six under negotiation.

The chairman added that research and development expenditure, totalling £3m in 1992, would be increased by 20 per cent in the current year.

Adverse exchange rates hold Scapa back to £20m

By Peggy Hollinger

ADVERSE exchange rates held back growth at Scapa, a manufacturer of papermaking and printing equipment with a third of its business in the US, as it revealed virtually flat pre-tax profits of £20m for the first half.

Mr David Dunn, finance director, said the weak dollar in the first half had depressed US profits by £1.4m. However, if the effects of the pound's devaluation continued throughout the rest of the year, "the big hit in the first half would be reversed".

Acquisitions in the US, Europe and Scandinavia helped Scapa report an 11 per cent increase in sales to £156.9m for the six months to September 30. Mr Bill Goodall, chairman, said all of the group's divisions had "turned in encouraging results" given the difficult market conditions.

Europe showed the strongest growth, with sales up 84 per cent to £41.3m and operating profits jumping 66 per cent to £4.4m.

Mr Dunn said the increase was solely due to the acquisitions of Scandiafelt of Sweden and an Italian filtration company. These had more than offset a setback in engineered rolls, which had been affected by the decline in installation of papermaking equipment.

Sales in the UK remained steady at £55.4m (£55.6m), although profits fell 17 per cent to £4.24m.

The industrial materials division in the UK had been "the one bright spot in the UK", Mr Dunn said, with significant benefits from integrating some of the Italian filtration business.

Sales in North America were £3m lower at £52.2m when translated into sterling, although they actually increased in dollar terms due to acquisitions.

Mr Dunn said that stripping out currency factors and acquisitions, sales had been totally flat. Operating profits fell 5 per cent to £11.9m.

North America was proving the most favourable of Scapa's sectors, said Mr Dunn, although as yet there were no reliable trends.

The dividend was increased by 5 per cent to 1.6p. Earnings per share were depressed by exchange rates, and the £55.6m rights issue in May 1991, falling from 6.2p to 5.7p.

● COMMENT

Scapa has been running hard to keep up and it appears to be succeeding. Margins are under pressure, but not as severely as had been expected. Management has so far moved quickly to cut costs, thus retaining a competitive edge as paper manufacturers begin to use fewer suppliers. The downside of protecting margins has been an increase in stocks and debtors, adding an even heavier working capital burden to an already investment-hungry business. This might ease a bit in the second half, but not by much. Further growth should come from more acquisitions – Scapa has a £70m cash war-chest – and a hefty currency gain if the rates stay anywhere near current levels. Forecasts are for £47m which, on a prospective p/e of about 16.5 times, leaves the shares looking fairly valued.

NEWS DIGEST

Holmes & Marchant in the red

HOLMES & Marchant, the marketing consultancy group, announced pre-tax losses of £160,000 for the year to September 30. There were profits of £2.1m last time.

The loss was after an exceptional charge of £1.29m (£564,000) relating to reorganisation, empty property costs and provision against property values.

Mr John Holmes, the chairman, said the losses at CCD in Spain, referred to in the interim report, had continued into the second half. As no upturn was expected for the current year the group's 75 per cent interest had been sold to its president.

Losses relating to the disposal are shown as an extraordinary charge of £2.87m.

Mr Holmes said that cost benefits from the recent reorganisation would continue in the first half of the current year.

Turnover fell to £37.4m (£46.2m). Losses per share amounted to 1p (7.3p earnings) and again there is no final dividend.

Oceonics up to expectations

Pre-tax profits at Oceonics Group, the provider of survey and positioning services, were £2.06m in the six months to September 30, compared with £2.42m. The company said the overall result was in line with expectations.

There were improved performances in Nigeria, UK Marine Survey division and Denmark. However in the eastern hemisphere operating profits fell.

Turnover for the period was £20.6m (£19.7m). Net interest payable fell to £151,000 (£363,000) as a result of healthy cash flow and the rights issue. Earnings per share came out at 0.8p (1.2p).

There was an exceptional charge of £106,000 relating to an exchange loss suffered on the pound's devaluation. However, there was a £270,000 currency gain on the retranslation of the group's interest in the net assets of overseas subsidiaries which was taken to reserves.

An extraordinary charge of £292,000 was made to cover costs of a former offshoot for which it is acting as guarantor, less a profit on sale of equipment.

Western Selection £24,800 in the black

Western Selection, the principal activity of which is the holding of substantial stakes in two investment companies – Creston and Burlington Group – reported a pre-tax profit of £24,800 for the year to end-September.

That compared with a deficit of £363,000 last year and came from total income of £103,100 (£177,100). Earnings per share were 0.15p (losses 2.51p). Net assets per share at September 30 were 11.46p (17.22p).

James Latham lower at £54,000

James Latham, the timber importer and builders' merchant, reported pre-tax profits of £54,000 in the six months to September 30, against £121,000 which included a property profit of £270,000.

The company said that importing had seen some margin improvement but elsewhere progress had been patchy. On the advice of consultants unprofitable Timber Centres branches were being cut and central overheads reduced.

Turnover was £31m (£30.5m). The interest charge was £616,000 (£707,000). Earnings per share came out at 0.29p (0.82p) and the interim dividend is being maintained at 1.5p.

Wrexham and East Denbighshire Water

Pre-tax profits of Wrexham and East Denbighshire Water Company showed an 87 per cent increase, from £572,000 to £1.07m, in the six months to end-September.

The outcome was achieved on turnover up by £523,000 to £5.15m. The improvement in the turnover figure was partly the result of an increase in metered consumption of more than 5 per cent, the company said.

Drayton Blue Chip restated figures

Drayton Blue Chip Trust yesterday circulated restated figures for the half year to September 30 to bring them into line with accounting policy adopted for the year to end-March 1992.

Net asset value per income share at September 30 is restated at 58.1p, against 60.5p at the March 31 year end and 89.4p a year earlier.

Net revenue for the six months was £510,000, against £675,000.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 04.12.92: Pool purchase price £/MWh	Final Prices for Trading on 05.11.92: Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.67	20.32	20.32
0100	26.74	23.28	26.21
0130	28.02	29.87	32.86
0200	28.02	29.87	32.82
0230	23.28	23.28	26.14
0300	23.28	20.68	20.68
0330	23.28	20.32	20.32
0400	18.33	17.97	17.97
0430	17.73	17.97	17.97
0500	17.67	17.71	17.71
0530	18.33	17.71	17.71
0600	17.99	17.71	17.71
0630	17.67	18.12	18.12
0700	18.83	23.47	26.28
0730	23.77	24.06	26.96
0800	24.70	24.06	26.96
0830	24.71	24.06	26.94
0900	24.72	24.21	27.10
0930	28.52	26.63	29.58
1000	28.52	26.63	29.34
1030	28.51	26.63	29.57
1100	24.77	24.21	27.08
1130	24.71	24.21	27.08
1200	24.71	24.21	27.08
1230	24.71	24.21	27.09
1300	24.71	24.21	27.10
1330	20.92	24.21	27.11
1400	20.70	20.77	20.77
1430	19.25	20.66	20.65
1500	19.26	20.60	20.60
1530	19.26	20.60	20.60
1600	24.86	20.60	20.60
1630	30.62	27.42	30.40
1700	35.41	31.18	34.28
1730	36.63	31.20	34.18
1800	34.96	31.20	34.18
1830	29.66	31.11	34.07
1900	27.69	27.86	30.73
1930	24.73	27.64	30.52
2000	24.29	27.64	30.45
2030	23.80	25.32	28.17
2100	23.77	24.06	26.89
2130	23.77	23.84	26.68
2200	23.77	23.48	26.32
2230	23.77	23.48	26.34
2300	18.89	23.48	26.38
2330	18.01	20.60	20.60
2400	18.01	17.71	17.71

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.52/MWh becomes 1.852p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by NGC Settlements Limited. Anyone wishing to receive such information should telephone [illegible] between [illegible] and [illegible] Monday to Friday.

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FINANCIAL TIMES SURVEY

VENEZUELA

Friday December 4 1992

One of Latin America's most consistent democracies has just witnessed the collapse of its second army rebellion in 10 months. **Stephen Fidler** contrasts its political and social turmoil with its high-speed economic expansion

A nettle to be grasped

For the second time in a year, members of the Venezuelan armed forces failed on Friday in a violent attempt to unseat the elected government of Carlos Andrés Pérez. The attempted coup reinforced the impression of a country simmering with political, social and military discontent, of an unstable society about to boil over.

Since the first coup attempt in February, the government of President Carlos Andrés Pérez has been embattled, at loggerheads with Congress and deeply unpopular in the country at large.

Yet Venezuela is an enigma. One of the continent's longest-standing democracies, it has been ruled by elected governments since 1958. With its vast reserves of oil, its problems are, on the face of it, the most tractable in Latin America.

At the same time its economy has been the fastest-growing in the world last year, expanding 10.4 per cent, after 1990 growth which approached 7 per cent. This year growth will probably exceed 8 per cent.

While some of this growth may be down in part to an influx of illegal drugs money over the country's newly open borders, it cannot be denied that the poor are benefiting. Consumption of basic foodstuffs has risen spectacularly. The Venezuela-American Chamber of Commerce, whose membership has a good grasp of the subject, reports sales of processed foods in October up 24 per cent on a year earlier.

The government says recent growth has only been possible because the private sector has been freed by the Pérez administration's economic deregulation programme.

The lifting of controls has had other effects which, in the view of some government supporters, provides a clue to the political opposition which the government has encountered and which have blocked further attempts at reform.

"One of the reasons for the political turmoil is that the economic programme has made political favouritism a dying industry . . . Price controls, import controls, exchange controls, credit controls have all gone. That affects a whole segment of the economy and has a big impact on the patronage that was oiling a big political sector," said one minister.

These measures, the government's chronic shortage of money and the relentless vigilance of an aggressive press have probably reduced opportunities for corruption, even as the country has become progressively more obsessed by it.

The government has also alleviated some of the worst effects of its policies on the poor, through food support programmes which have replaced, for the most part, generalised food subsidies. The government spends 10 per cent of its budget on these programmes and plans to increase their coverage next year.

A wealthy and diverse nation with rising expectations: (left to right) mother and child in the central plains, or Llanos; a square in Caracas; a freelance gold panner in the wild southeast

This is not to say that Venezuelans – whose per capita annual income of $2,450 is hardly changed from 15-20 years ago – do not have legitimate grievances. The president has aggravated these concerns by appearing aloof and isolated. A man with the political skills to persuade Venezuelans of the importance of economic reform, he has failed to do so.

The government's most significant failure is its inability to improve much on the abysmal levels of public services. "I've doubts about the meaning of growth," said Mr Ramon Piñango, academic director at IESA, the leading business school. "Public services are getting worse: education is deteriorating, so is health care, and public safety is getting worse."

Government utilities – or rather their customers – are suffering from a lack of maintenance of plant installed in the oil boom years of the 1970s. Large areas of Caracas, for example, are suffering cuts in their water supply for days on end.

Some efficiencies can be obtained by improving management of the current system. There are also signs of a possible way ahead through the decentralisation of the political system. In a country where teachers are regularly found to be functionally illiterate, education standards in some states have been raised by requiring teachers to pass tests before they are employed.

Privatisation offers a solution to other problems: private ownership or management of utilities enables cash-short governments to encourage investment.

The disaffection within the military is in part another manifestation of the government's inability to distribute the kind of largesse to which its citizens and employees became accustomed in the 1970s.

In part, too, it reflects the loss of a sense of purpose and of prestige in the military, which now faces neither political extremism nor threat from neighbouring countries.

Unless and until the government tackles the issue of shrinking the armed forces – allowing it to raise salaries and improve conditions of service – military unrest looks likely to remain an unpredictable possibility which future governments (and prospective foreign investors) will be unable to ignore.

The crisis in Venezuela's public services has arisen largely because the 1970s oil price boom allowed the postponement, by successive Venezuelan governments, of tough fiscal decisions forced on most other Latin economies in the 1980s. It was left to the Pérez government to attempt to wean Venezuelans away from their overdependence – financial and psychological – on oil. In a $50bn economy in which, even during the bad times, oil generates $10bn in export revenues, this has proved no mean task.

Sooner or later a Venezuelan government will have to grasp the fiscal nettle: it will need to induce Venezuelans to pay the proper price for the goods and services they receive and to pay taxes.

This should not be as difficult as it is proving. The government's non-oil revenues are equivalent to a meagre 5 per cent of GDP. Clamping down on tax evasion – as has occurred in Argentina – could yield big benefits, because some estimates suggest that only 35 per cent of taxes due are paid. Raising petrol prices – now the lowest in the world – to international levels would alone yield 2.5 per cent of GDP, according to calculations by Petróleos de Venezuela.

Only when the government is in control of its finances can it start – in conjunction with sectoral reforms – to raise the appalling standards of public services.

This will involve a recognition – among politicians, trade unionists and the wealthy and middle-class Venezuelans whose opposition to reform has been most articulate – that their stake in the country will require them, just like the citizens of other countries, to pay taxes.

This in turn will require a sense that the political system itself is worthy of support: a belief that may be fostered by the increasing number of local and national politicians who will be directly elected in forthcoming elections.

The government is optimistic that after Sunday's local elections some of the reforms it has been pushing, including a modest tax change, will be passed. More fundamental change will probably have to wait until after congressional and presidential elections at the end of next year.

What will happen after that is a matter for conjecture. Currently, the country's two most popular figures both reflect a wish for a return to the past: Lt Col Hugo Chavez, the leader of the February revolt, and Mr Rafael Caldera, a distinguished 77-year-old former president who represents the political old guard. Mr Caldera, not yet an official presidential candidate, is unwilling to be too specific about his platform, but he makes no secret of his wish to reverse some reforms of the current administration. He would also seek, he says, further alleviation of Venezuela's foreign debt.

The prospect of a Caldera government worries many businessmen and bankers.

With little prospect of another oil boom, whoever takes office in February 1994 will face tough choices. Perhaps the failure of Venezuelans to heed the military's call for a popular rebellion last Friday reflects a sense that even for a society with huge oil reserves, there are no magic solutions.

On the other hand, the rebellion will cast a pall of uncertainty over 1993 and may fatally damage the long-term confidence of investors.

IN THIS SURVEY

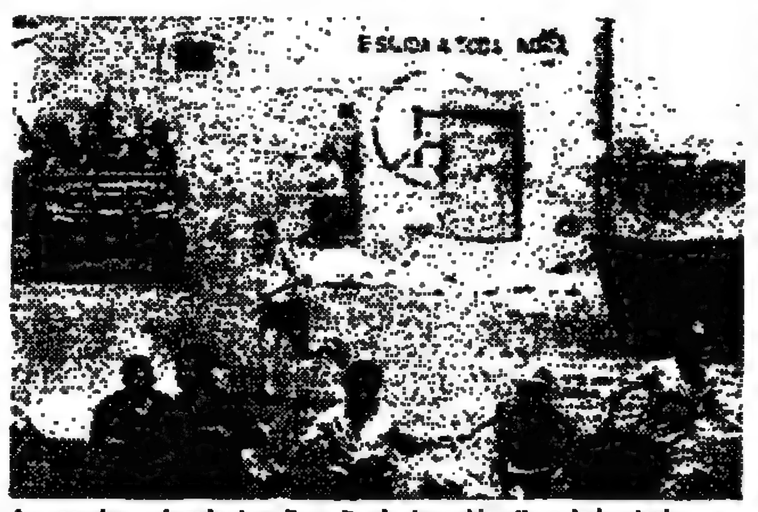
■ LESSONS OF THE COUPS THAT FAILED

Jittery prelude to a year of elections

VENEZUELA'S political system was pushed into crisis in February by a military uprising aimed at toppling the elected government of President Carlos Andrés Pérez. It is too early to tell whether last week's second abortive coup of 1992 will further retard – or accelerate – efforts to restore stability to the system.

The small group of officers who led the February rebellion in the army said, among other things, that they wanted to eliminate corruption in the political and military establishments, get rid of a vitiated political system, end economic policies that condemned most Venezuelans to poverty and guarantee Venezuela's sovereign rights in dealings with foreign powers.

Last week's attempt suggested the disaffection spread further into the armed forces than had hitherto been expected, with units of the air force, navy and national guard joining the army in the rebellion.



A second warning: looters flee after last week's attempted putsch

The rebels' February statements struck a chord among Venezuelans, but after the November putsch the public reaction appeared more negative. Many people appeared to reject military government. The attempted coups, actions not seen in Venezuela since the days of left-and right-wing violence in the early 1960s, unleashed waves of anti-government and anti-system sentiments, and pushed the political parties into crisis.

The military remained uneasy after February and political violence erupted when a small group of civilians tried to assassinate individuals they identified as corrupt. Violent street protests organised by leftists and students caused widespread public concern during the first half of the year, but tapered off after July. Last week, military appeals for people to take to the streets in support of the rebels were largely ignored.

President Pérez, whose five-year term of office is due to last until February 1994, has had to fight off public calls for his resignation, and his administration has been under constant attack for its support of free market reforms and its failure to make any significant improvements in public services such as water, health, education, transportation and public safety.

The two main political parties, President Pérez's Accion Democratica (AD) and the main opposition group, the Christian Democrat Copei Party, have been wracked by divisions and contradictions.

Sometimes supporting Pérez on key issues, the two groups have also attacked his government on fundamental policies. They have failed either to establish a clear line of support for the besieged government or to offer a coherent and credible opposition.

Pérez's AD party has been sharply divided over his economic policies since the first months of his presidency. Only two small leftist parties, MAS and Causa R, have been consistent in their demand for his resignation and the scrapping of economic reforms initiated in 1989.

Most people now focus their anger on President Pérez, blaming him for practically everything that is wrong in Venezuela.

Ironically, it is Mr Pérez, a product of the old system (where a small group of AD and Copei leaders controlled most major policy decisions) and a man severely criticised for allowing widespread corruption during his first presidential term in 1974-79, who for nearly four years has made the greatest efforts at reforming Venezuela's economic and political systems.

Public opinion polls taken since February consistently give Mr Pérez and his administration very low approval ratings. (They also received poor ratings before the putsch.) And to varying degrees, most of the country's prominent politicians – including the AD and Copei leaders who want to run for president in 1994 – also obtain poor rankings.

Two figures have remained highly popular since February: Lt. Col. Hugo Chavez, who led the February uprising, and former President Rafael Caldera, the founder of Copei who was chief executive from 1969-74. Chavez, who has become something of a folk hero, is still in jail awaiting a court martial.

Mr Caldera, 77, is widely respected for his honesty and intelligence. His popularity rocketed on the day of the February revolt when, in an impassioned speech to Congress, he said it was difficult to ask Venezuelans to sacrifice themselves to defend a regime that failed to feed the people.

The former president currently is a leading potential candidate for the presidential race in 1993, in competition with his former protege, Mr Eduardo Fernandez, secretary general of Copei. Mr Caldera and Mr Fernandez fell out after the younger politician defeated the Copei founder in a vote for the party's last presidential candidacy. If Mr Caldera cannot reconquer his party for the 1994 campaign, he is likely to run as a candidate for the socialist MAS.

After the February putsch the president promised to install a constituent assembly to reform the Constitution. But the Congress, dominated by AD and Copei, ignored the idea and developed a long and controversial list of amendments it planned to approve this year or next.

These proposals were shelved after the Venezuelan media proprietors started a public campaign against changes that would restrict ownership of media by individuals and economic groups, and oblige them to allow a "right to reply" from citizens attacked in the press.

Venezuelans are scheduled to elect state governors, mayors and city councils in elections on Sunday but the outcome is unpredictable. It is already clear, however, that most Venezuelans oppose the Pérez government's economic policies.

The main uncertainty is how many people will bother to vote. Abstention in regional elections in 1989 reached 54 per cent nationwide and 73 per cent in Caracas, despite the fact that voting is obligatory under Venezuelan law. A high abstention rate would probably favour AD and Copei which are geared to "get out the vote" for their candidates.

Elections to choose a new president, national Congress and state assemblies are scheduled for December, 1993. In past years, it was clear by this stage who the main candidates would be. But now the outlook is clouded by turmoil within the two main parties.

Venezuela's military, like most of the population, wants sweeping reforms. For the time being, the rift between middle-rank officers (who generally want rapid change) and the high command (who have supported Mr Pérez and the Institution of the presidency) has not caused problems.

Venezuela's political system, like the economy, is undergoing a transition that probably will take several years. Despite many efforts to derail his reforms, Mr Pérez has indirectly shaken up the traditional power of Venezuelan politicians who served as intermediaries for businessmen, students and other favour seekers under a highly controlled bureaucracy.

By opening up the Venezuelan economy and reducing government interference, he has dramatically reduced opportunities for corruption, as well as the power of party leaders and followers to "get things done".

Joseph Mann

Stephen Fidler examines the irony of an economy booming in the midst of political turmoil

Drawbacks of over-reliance on oil

VENEZUELA represents one of Latin America's great puzzles. A country that for the last three years has enjoyed one of the fastest economic growth rates in the world is suffering political and social turmoil, two military coups in the space of a year, all supposedly because of an economic austerity programme.

Yet there is little evidence of austerity. After growing 6.5 per cent in 1990 and 10.4 per cent last year, the Venezuelan economy will probably expand this year by more than 8 per cent. Growth from the third quarter last year to the third quarter this has been 10.6 per cent; in the first nine months of this year, the non-oil private sector grew by 13¼ per cent.

President Carlos Andrés Pérez's first year in office, 1989, was indeed tough, with the economy shrinking by 9 per cent. Since then, however, growth has been impressive and not only to the benefit of the rich.

There is strong evidence to suggest that Venezuela's poor have been significant beneficiaries too. Sales of processed foods in October were 24 per cent higher than in October 1991, and are predicted to continue to show strong growth.

Unemployment has dropped by some 100,000 people on the last 12 months, to around 7.7 per cent of the workforce, ignoring an informal economy which is also said to be livelier. The government estimates that with the 170,000 people who joined the workforce over the last year, some 270,000 new jobs have been created, nearly all in the private sector. Real wages have been rising.

According to the government, far from creating economic austerity, its economic reforms have unleashed the productive potential of the private sector. "Three years down the road you can see the policy is paying off in generating

Unemployment fell by 100,000 to 7.7 per cent of the workforce

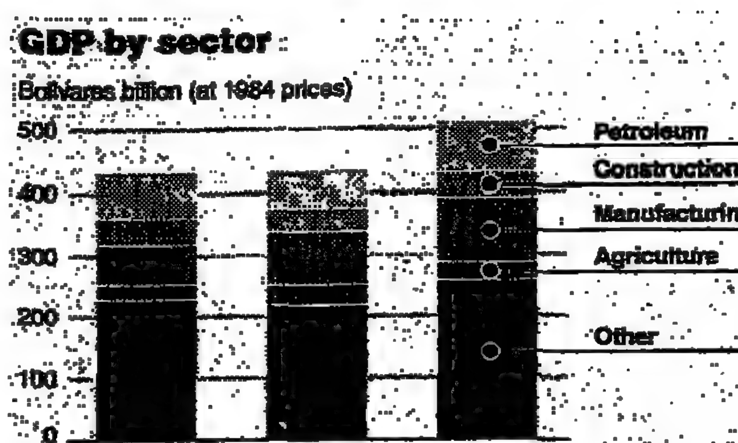
higher living standards," says Mr Ricardo Hausmann, minister of planning.

These reforms – which have included the lifting of a raft of government controls on prices, foreign exchange, imports and credit – have yielded other benefits, such as a flow of new products into the Venezuelan market. Price controls, for example, discouraged pharmaceutical companies from introducing new drugs into the Venezuelan market. Now, able to set prices to make a profit, the companies are introducing new products into the country.

Unsurprisingly, there are signs that the economy is overheating. Interest rates were sharply increased in October to prevent a run on the currency to levels likely to slow growth next year.

The government is also behind others in Latin America in securing control over its own finances. This problem is not entirely of its own making, since it has not yet been able to secure support for tax reform proposals from a truculent Congress.

A budget deficit of 3-4 per cent this year seems unlikely to be significantly improved upon next year. Although the government argues that the state oil company's borrowing should not be calculated as



part of the government deficit, this is a factor which will make it difficult for the government to bring down inflation from its present level of nearly 35 per cent.

Part of the problem stems from the country's historical overdependence on oil, which still accounts for four-fifths of exports and the same proportion of government revenues. As a result, the country's economic fortunes are too closely tied to the volatile oil market.

This means, for example, that the government raises only 5 per cent of GDP in non-oil taxes, the rest coming from Petroleos de Venezuela (PDVSA), the state oil company. So, when oil prices drop, not only does the current account swing into deficit but so do the government finances.

In the 1970s, when oil prices were rising, the government used the state oil company as a milch cow; in the 1980s, it never got out of the habit.

Now, however, it has some hard choices to make. The transfers to the government required of Petroleos de Venezuela threaten to become too high to sustain the company's investment programme, needed in part to ensure it is adequately equipped to meet tougher environmental standards for oil products in the US and elsewhere.

The government's solution has been to slow PDVSA's investment programme, encourage more private investment in the oil industry, cut government spending in other areas and attempt to enlarge its tax take from other sources.

The government has made some changes to the tax code – such as raising penalty rates for non-payment – and secured passage of a public credit law, which prevents the government from giving guarantees to public or private sector enterprises and stops the military from issuing promissory notes.

Other tax changes (watered down from the government's original proposals) await approval from Congress, including a sales tax and a business assets tax. But, even if passed, most private observers say the government's estimate that the new taxes will raise 3 per cent of GDP next year is over-optimistic.

It has also introduced other legislation, which would provide for a more independent central bank and speed the privatisation process, for example by allowing the sale of enterprises through capital markets.

Stopping tax evasion could almost double *non-oil tax revenues*

Government finances should be helped somewhat by the sharp devaluation in October of the bolivar: since much of its income is related to international oil prices, a devaluation boosts government revenues in local currency. However, partly because of the negative impact on inflation and on foreign investment (which held up remarkably well in the first half of the year despite the coup attempt), it does not provide a long-term solution.

Ironically, such a solution might be simpler in Venezuela than in some other countries. Because the non-oil tax take is so low, increasing it significantly should be quite easy.

Finance officials estimate that stopping tax evasion could almost double non-oil tax revenues; PDVSA reckons that charging Venezuelans international prices for gasoline (rather than the 6½ US cents a litre they currently pay) would raise an extra $1.25bn a year for the oil company.

The oil company estimates that fuel prices only account for 8 per cent of the cost of public transport, so the impact on the poor of a petrol price increase would be limited.

If the impact on social equity was still viewed as important, subsidies for public transport – along the lines of the successful direct food subsidies for the poor that have mostly replaced generalised subsidies – could be introduced.

Such solutions are, however, likely to be politically too hot to handle before next year's congressional and presidential elections.

Oil industry tackles opposing pressures, writes Joseph Mann

Squeezed between rising taxes and depressed prices

VENEZUELA'S national oil company, Petroleos de Venezuela S.A. (PDVSA), faces some serious difficulties which are not of its own making.

PDVSA, with 1991 gross international sales of $22.3bn, is squeezed between weak oil prices and steep taxes and investment requirements. While the company remains well-managed, efficient and profitable, the current situation has produced serious cash flow problems and has forced PDVSA to acquire nearly $5bn in debt, having been debt-free only a few years ago.

It also has been obliged to stretch out its capital investment programme and seek international equity partners for projects in petroleum sectors that previously had been off limits to private investment.

Like other major international oil companies, PDVSA is suffering from the effects of low oil prices on world markets. This year, the average export price for PDVSA crude and refined products through mid-November fell below last year's price of $15.92 per barrel. The export price was $20.33 per barrel in 1990 and $17.85 per barrel in 1989.

And, like other big suppliers of refined petroleum products to the US market, PDVSA – the world's third largest oil refiner – must spend large sums on upgrading its refining complexes in order to meet tougher environmental standards for key export products such as gasoline.

PDVSA expects to invest at least $3.6bn in refinery improvements over the next several years to meet or exceed provisions of the US Clean Air Act, and to ensure compliance with environmental regulations in other places where it sells refined products, especially Europe.

These investments are also aimed at permitting PDVSA's home refineries to process increased volumes of heavy crude, which is abundant in Venezuela. (Apart from four refining complexes in Venezuela, PDVSA wholly or partially owns large oil refining and petrochemical plants in the US and Europe.)

In addition, PDVSA must constantly invest huge sums in crude oil production. The country's oil fields suffer a potential decline in output of 22-23 per cent per annum, which means that PDVSA must invest over $2bn a year simply to maintain crude output at the present capacity level.

The company is also building new production potential, which requires even greater investments. Its target is to raise crude oil production capacity from the current level of 2.8m b/d to 4m b/d by 2002. "PDVSA must grow," said Mr Alirio Parra, Venezuela's Minister of Energy and Mines.

Gustavo Roosen, PDVSA's president: cash shortage

At the same time, PDVSA is being slowly strangled by a heavy tax burden at home. The company currently pays at least 82 per cent of its operating profits to the Venezuelan Treasury in taxes and royalties. (The maximum corporate tax rate for companies outside the oil sector is 30 per cent.) And since the Venezuelan government relies on oil to provide most if its revenues (despite years of talking about diversification), a dramatic reduction in PDVSA's tax burden cannot be made overnight.

Working together, Energy Minister Parra and the president of PDVSA, Mr Gustavo Roosen, have been able to develop some solutions to the company's problems, although relief will not be immediate.

The Energy Ministry, which draws up policy guidelines for PDVSA, has eased the company's tax burden slightly this year by adjusting the export value system.

Export values of crude and refined products are used as a base to calculate PDVSA income taxes. The minister also has introduced legislation that would phase out the export value system on a staggered basis by 1996, and has changed some accounting rules applied to PDVSA's books and tax declarations.

These initiatives will provide substantial tax savings for the national oil company in coming years, but will not pull the fiscal carpet out from under the the government.

Other changes are also being studied to ease PDVSA's tax burden. Taken as a whole, these measures should ensure that PDVSA will be able to push ahead comfortably with future investments and continue to generate net profits. The government itself has proposed new taxes, including a version of VAT, that will make it less dependent on the vicissitudes of its main commodity, petroleum.

PDVSA is moving ahead with direct investments in production and refining, which are necessary if the company is to maintain its international market share. But it has stretched out some projects contained in its medium term investment plan, delayed others and is looking to international capital to develop a variety of joint-venture projects in heavy oil, refining, natural gas and other areas that were formerly the exclusive domain of PDVSA and its subsidiaries.

"The most limited resource that the the petroleum industry has today is money," said PDVSA president Roosen. "I don't want things to be left undone simply because we don't have the cash." The company's current investment plan through 2002 totals $40bn, at 1992 prices.

Of this total, PDVSA will carry out direct capital spending of $28bn, while it hopes that international investors – either acting alone or in joint ventures with the company – will invest another $12bn. Apart from newly targeted areas for foreign investment such as oil production and refining, PDVSA has established – or is negotiating – joint ventures with Venezuelan and international partners in natural gas, petrochemicals, coal and Orimulsion, a new fuel that is an emulsion of bitumen and water. PDVSA is marketing Orimulsion as an alternative to coal in electric power plants.

To save money, PDVSA also has cut its operating and capital budgets this year, and will continue controlling costs in 1993. Capital spending for 1992 is expected to reach $3.7bn, about the same as last year.

PDVSA this year opened the door to limited-scale private investment in oil production. It asked oil companies from Venezuela and abroad to bid on crude oil production contracts covering a series of old oil fields that PDVSA itself did not want to reactivate.

As a result, two groups made up of Benton Oil (US)/ Vinccler (Venezuela) and Teikoku Oil of Japan signed operating contracts under which they pledged to invest $280m over the next 10 years to develop new production from marginal oil fields in eastern Guarico state and southeastern Monagas state.

The two groups will not own the oil and natural gas they produce, but will turn it over to PDVSA subsidiaries and receive compensation according to the volumes of oil they can pump.

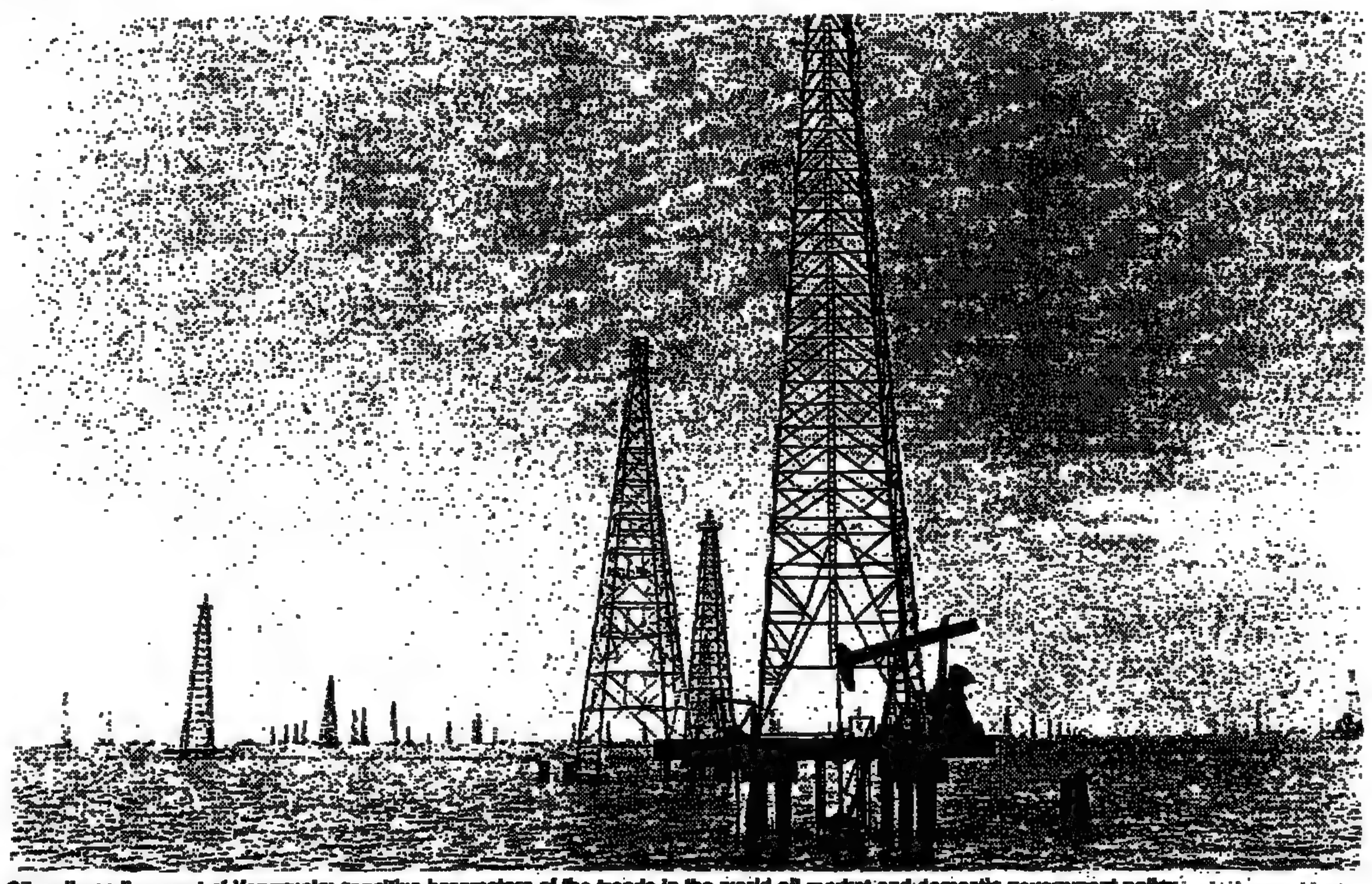
Last month, Energy Minister Parra announced that the government and PDVSA were seeking bids for production contracts on 73 other marginal fields with total proven oil reserves of more than 1.2bn barrels.

Heavy oil is an important resource for PDVSA. Venezuela has the world's largest known deposits of bitumen and extra-heavy crude in the Orinoco Belt, an area that lies north of the Orinoco River. Heavy and extra-heavy crude oils contain high levels of carbon, sulphur and metals that must be removed at high cost before the crude can be processed in normal oil refineries.

PDVSA has two main approaches to developing its reserves of bitumen and extra-heavy crudes. The first is an international marketing programme for Orimulsion, a fuel composed of bitumen and water that is made by PDVSA subsidiaries. The second involves seeking a foreign partner who can provide technology and capital for developing new production of extra-heavy crudes and converting them into lighter, higher quality oils (called syncrudes) that can be processed in normal refineries.

An upgrading plant using Veba Oel technology to produce 131,000 b/d of synthetic crude oil, for example, would cost over $4bn. PDVSA has signed letters of intent with more than a dozen international oil companies with the idea of developing strategic business associations in heavy oil.

Due to the long start-up period for heavy oil projects of this type, the government and PDVSA plan to offer investors access to light/medium crude oils during the first stage of project development. This would give investors a positive cash flow until the heavy oil processing plant could go on stream. PDVSA is currently considering offers on heavy oil projects from Conoco, Veba Oel, Elf Aquitaine, Mobil and Total.



Oil wells on the coast of Venezuela: sensitive barometers of the trends in the world oil market and domestic government policy

PDVSA: direct investment 1993-98 ($bn)

Sector	Investments per cent of total
Total maintaining production capacity	13/66
Upgrading refineries in Venezuela	3.6/18
Increasing crude oil production potential	1.4/7
Exploration	1.5/8
Venezuelan market	0.252/1
Support activities and others	0.182/1

Proved reserves of crude oil (billions of barrels at year end)

1976	1987	1988	1989	1990	1991
18,228	58,084	58,504	59,041	60,055	62,650

Source: PDVSA

Joseph Mann on the potential and pitfalls of a new fuel from the Orinoco

Treacly rival to coal and oil

IN the mid-1980s, Venezuela's PDVSA and BP developed a new fuel called Orimulsion.

Orimulsion, now registered by PDVSA as a trade name, is an emulsion made up of approximately 70 per cent natural bitumen by volume, and 30 per cent water, plus a surfactant, or additive to keep the mixture stable.

It is being marketed as a fuel for electric power generation plants and other industrial facilities that generate power.

The motivation for developing this fuel came from the huge reserves of bitumen and extra-heavy crude oil that Venezuela possesses in the Orinoco Belt, the world's largest deposits of their type.

PDVSA has estimated that the Orinoco Belt holds 1.2 trillion barrels of bitumen and heavy oil in place, and that around 270bn barrels can be recovered for commercial use.

Orimulsion has been tested commercially in Canada, Japan and the UK, and PDVSA has signed long-term contracts to supply the product to power plants in these countries and Spain. PowerGen's Ince B plant is one of the plants in Britain where Orimulsion is used.

In 1991, PDVSA produced 1.1m tonnes of Orimulsion, four times its output the previous year. Sales to international clients reached 885,000 tonnes in 1991, up 700,000 tonnes from 1990.

Through its subsidiary Bitor, as well as joint ventures between Bitor, BP and Mitsubishi, PDVSA is aggressively marketing Orimulsion internationally. The company's goal is to be producing – and selling – around 41m tonnes per annum by 1996.

PDVSA is pushing Orimulsion as an economical, long-term alternative to coal and fuel oil. It can be transported and stored like fuel oil, and, unlike coal, does not raise dust during transportation.

The company says that relatively small investments are required to adapt plants that burn fuel oil to Orimulsion. However, some serious questions have been raised in the US and the UK about pollution problems that might be associated with this new fuel, including emissions of sulphur dioxide and nitrogen oxide (the two main acid rain gases), particles and others.

PDVSA asserts that Orimulsion compares favourably with other fossil fuels in terms of environmental impact.

Citing the results of independent tests and commercial applications, PDVSA says that Orimulsion produces levels of sulphur dioxide emissions that are lower than those produced by 2.5 per cent sulphur coal and slightly higher than 3.5 per cent sulphur fuel oil.

It also asserts that Orimulsion's high caloric value means that lower volumes will be burned (and thus less sulphur dioxide released) than by fuels with less caloric value, to generate the same amount of energy.

As for nitrogen oxide emissions, PDVSA states that Orimulsion produces less than coal and the same or less than fuel oil. The company says that Orimulsion burned in conventional power stations produces about 20 per cent less carbon dioxide than equivalent coal-fired stations, and levels similar to plants burning fuel oil.

Particle emissions, PDVSA states, are "well within the strictest limits set by developed industrialised countries", and acid smuts are unlikely in power stations burning Orimulsion.

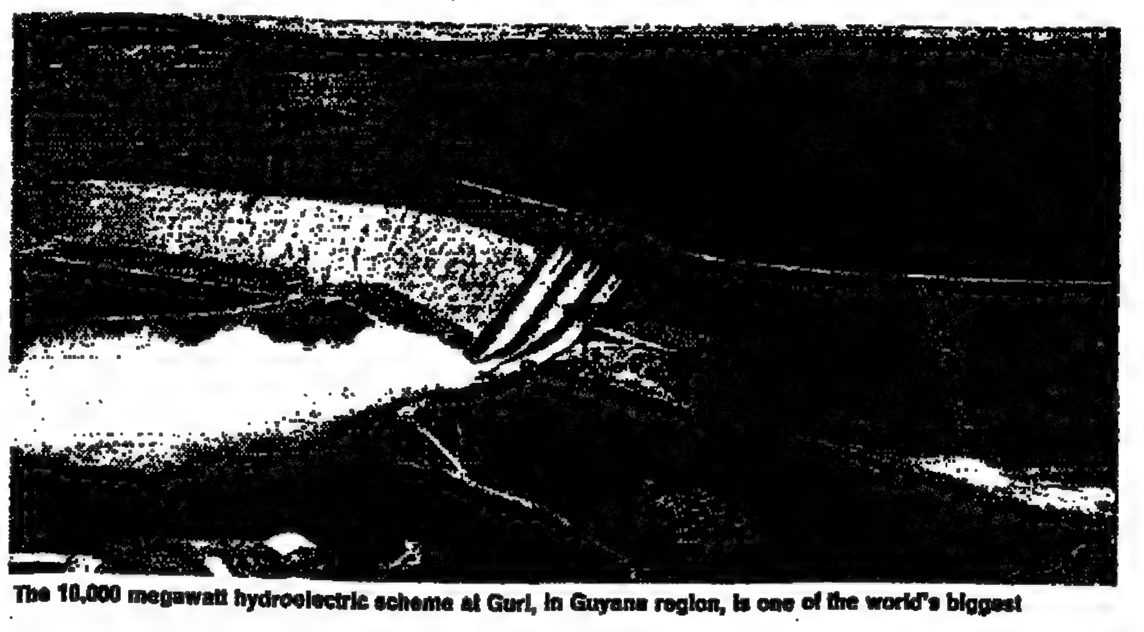
"In test spills, a high percentage of Orimulsion disperses of its own accord, the company says.

At the same time, PDVSA's R&D unit, Intevep, has produced a "second generation" of Orimulsion that is supposed to be cleaner than the first.

PDVSA'S PERFORMANCE IN 1991

☐ Production (crude oil)	2.34m b/d
☐ Exports of crude oil and refined products	2.12m b/d
☐ Proved reserves of crude oil at year end	62.7bn barrels
☐ Employees (not counting contracted workers)	54,850
☐ Sales of refined products on Venezuelan market	340,000 b/d
☐ Gross international revenues	$22.3bn
☐ Average per barrel export price	$15.92
☐ Pre-tax earnings	$9.1bn
☐ Taxes paid to Venezuelan treasury	$8.7bn
☐ Operating costs in Venezuela	$4.1bn
☐ Net earnings	$441m
☐ Capital investments	$3.7bn

Source: PDVSA



The 10,000 megawatt hydroelectric scheme at Guri, in Guyana region, is one of the world's biggest

■ FINANCE

Banks braced for tighter controls

THE Venezuelan financial sector, so far relatively insulated from the government's free market reforms, is expected to face foreign competition and tougher banking standards if legislation scheduled to pass before March wins congressional approval.

The legislation to modernise the financial system has been languishing in Congress for the past 18 months. At long last, however, there appears to be a consensus among the big banks – and therefore an end to opposition from political parties – to endorse changes which would open the banks to increased supervision and disclosure requirements, and permit substantial foreign investment in the banking sector.

Venezuela's financial system is in serious need of reform. The country's existing banking law is limited in scope and not suited to modern financial services. Supervision of the banking system, under the control of the Superintendency of Banks, which is part of the finance ministry, and to some degree the Central Bank, has been traditionally lax.

According to a foreign banker, some commercial banks, the most important group within the country's specialised financial system, "have been doing a lot of non-banking business" that has contributed to low-quality loan portfolios. This includes making loans to companies in which bank executives or directors are themselves investors.

The central bank recently moved to impose more order on commercial banks by enforcing reserve requirements that some banks had ignored in the past. The initiative caused liquidity problems at some financial institutions, which competed for deposits by offering sky-high interest rates, even on savings accounts.

Although impetus for change has come from some Venezuelan banks, international developments have helped. Higher capital adequacy standards, set by the Basle-based Bank for International Settlements, as well as tougher regulations for foreign bank branches operating in the US, have pushed the Venezuelan financial sector to endorse higher standards. "Venezuelan banks are bowing to the inevitable," said a foreign banker.

The legislation would create a stronger, more independent central bank, a strengthened Superintendency of Banks with more oversight authority and independent funding paid by the banks themselves, as well as clearer guidelines for the financial sector.

The current banking law, a patchwork of legal requirements and prohibitions, would be replaced by a modern law which specifies those activities banks may not engage in, but which would permit the banks to carry on any non-proscribed financial activity.

The law would include rules for financial statements, and degrees of permitted concentration in loan portfolios to companies wholly or partially owned by banks or their directors. Furthermore, higher equity/loan ratios would be phased in. New policies in the latter two areas have already been issued in advance.

Opening commercial banking and other financial services to direct foreign investment in subsidiaries, branches or joint ventures has become less controversial since large foreign banks already play an important role in financing Venezuelan companies, through 70 representative offices or investment banking units.

Wholesale banking operations are likely to continue to attract foreign banks, but it is unlikely that there will be a stampede into the market.

Political uncertainty at the start of a presidential election year would probably also act as a brake to any new foreign investment in banking over the short term. However, some Venezuelan bankers are still worried that their institutions (and power bases), whose stock is often cheap in foreign currency terms, will be taken over by an international bank; they remain opposed to opening up the system.

Some Venezuelan commercial banks with large retail networks may welcome a capital injection from a foreign partner. Initially, the new banking law was expected to cap the share owned by foreigners at 20 per cent, but the current legislation leaves the ceiling open to the discretion of the Ministry of Finance.

Freer access to new equity could be a boon to domestic banks. The president of Banco Venezolano de Credito, Mr Oscar Garcia Mendoza, said that local banks need to raise equity to "grow and solidify the private sector".

"We are so small that we couldn't even make a $100m loan to our state petroleum company, PDVSA. It has to rely on foreign banks for the scale of funding it requires," he said.

Ruth de Krivoy, president of the Central Bank of Venezuela

Improving the Venezuelan financial system should pay other dividends in the long run, attracting more foreign capital and investment. Even if Venezuelans repatriated only the annual interest on the estimated $60bn that they have invested abroad, a big infusion of capital would take place.

Attracting that capital is crucial to Venezuela's future, because domestic financial savings have shrunk. According to one foreign bank active in Venezuela, total financial assets on the balance sheets of all Venezuelan financial institutions at the end of 1979 amounted to the equivalent of $23bn. At the end of 1990 the same assets were $18bn – a decline of 23 per cent in nominal terms, but over 50 per cent in real terms.

During the same period financial assets in the hands of Venezuelans abroad are estimated to have tripled from $20bn to $60bn. Capital fled the country largely because banks fixed interest rates and because investors lacked confidence in the economy and expected the Venezuelan bolivar to be devalued. "Passage of the banking law will be a small but important step in the right direction," a banker commented.

A more modern banking system operating at international standards and attracting new capital could better channel capital to other investments. With the state-dominated economy now slowly being privatised, increasing opportunities exist for investment.

"Our private sector is still too small," Mr Garcia Mendoza said. "Venezuelans have not saved in Venezuela because there was no place to save." The new banking law could well help change that habit.

Ann Charters

KEY FACTS

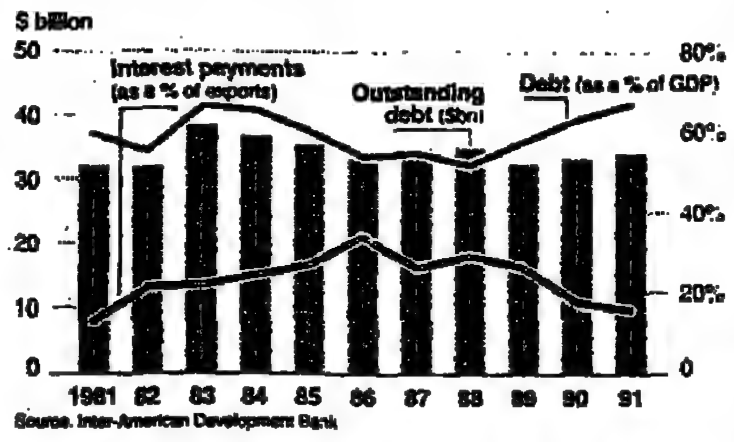
Area	912,045 sq km
Population	20.3m (1991 estimate)
Head of State	President Carlos Andres Perez
Currency	Bolivar (Bs)
Average exchange rate	1991 $1 = Bs56.82; 16/11/92 $1 = Bs77.37

ECONOMY

	1991	Latest[1]
Total GDP ($bn)	53.4	n.a.
Real GDP growth (%)	10.4	4.2[2]
GDP per capita ($)	2,642	n.a.
Components of GDP (%)		
Private consumption	67.2	
Total investment	18.7	
Government consumption	9.4	n.a.
Exports	30.9	
Imports	-26.2	
Retail prices (% change pa)	34.2	33.3
Unemployment (% of lab force)	8.7	n.a.
Reserves minus gold ($bn)	10.7	9.8
Money growth (% pa)	29.1	46.4
Govt bond yield (% pa,avg)	27.1	29.7
Oil production (m barrels/day)	2.3	n.a.
% of world total	3.8	n.a.
Total external debt ($bn)	32.9	35.1[2]
Debt service ratio (%)	26.6	n.a.
Current account balance ($bn)	1.0	-1.5[2]
Exports ($bn)	15.1	14.1[2]
(of which petroleum exports)	12.2	11.1[2]
Imports ($bn)	10.2	11.7[2]
Trade balance ($bn)	4.9	2.4[2]

Trade 1990 % by value	Exports	Imports
US	52.0	46.1
Germany	5.1	9.3
Cuba	3.4	-
Japan	3.2	3.9
Italy	-	4.8

[1] = 1992 figures (money growth July; bond yield Aug; consumer prices, reserves – Sept)
[2] = EIU estimate for 1992
Sources: IMF, Opec, EIU



■ FOREIGN INVESTMENT

A surge of confidence

VENEZUELA must be doing something right.

After years of lacklustre growth, direct foreign investment in this South American republic soared by a record $2bn in 1991, from $440m in 1990 and $840m in 1989, according to data provided by the government and Conapri, a joint public and private enterprise that promotes new investment.

Last year's foreign investment results were unexpectedly high because of privatisation of the national telecommunications company, CANTV, which alone netted the Venezuelan treasury $1.89bn. Some 72 per cent came from international companies participating in the consortium that bought a controlling interest in the CANTV.

As of last month, privatisations in 1992 had not generated any large capital inflows from international companies. Nonetheless, foreign investment remained strong. According to Mr Ricardo Hausmann, Venezuela's minister of planning, foreign investment during the first eight months of 1992 increased by $725m – a figure far ahead of 1991 if the CANTV privatisation is excluded. Foreign investment figures include fresh capital outlays, reinvestment of retained earnings and, in past years, proceeds of debt-equity swaps.

This positive trend in Venezuela has several causes. At the start of its five-year term in early 1989, the administration of President Carlos Andrés Pérez ordered a series of important economic reforms aimed at reducing state intervention in the economy, promoting competition from domestic and international sources, giving private investment a greater role and generally moving Venezuela toward a free market system.

The Perez government broadly liberalised its foreign investment code in 1990 with the approval of Decree 727, which eliminated most of the stumbling blocks which international investors had complained about for years.

In March 1992, the government liberalised its foreign investment environment even more. Decree 2,095 eliminated most of the restrictions which previously reserved certain economic sectors for Venezuelan investors, and placed foreign companies on the same legal footing as Venezuelan companies under the rules applying to the Andean Common Market (Pacto Andino), a regional integration group that includes Bolivia, Colombia, Ecuador, Peru and Venezuela. It also allowed foreign concerns to include trademarks, patents, and other specialised technology as capital contributions.

This more open environment for international investment – and for private investment in general – is helping Venezuela to realise the potential for growth that people have been talking about for years. Investors familiar with Latin America have long been aware of Venezuela's competitive advantages, which include:

- low-cost energy from abundant hydroelectric power and large reserves of fossil fuels;
- major deposits of minerals such as iron ore, bauxite, gold, diamonds, coal and others;
- the largest proved reserves of crude oil outside the Middle East, plus large gas deposits;
- a modern physical infrastructure;
- a young work force and a corps of managers experienced in international business;
- a good location for reaching markets in the US, Europe and Latin America;
- a relatively small population (about 20m) with manageable problems.

The biggest share of foreign investment in 1992 came from CANTV, which was privatised in December 1991 and is under the operating control of GTE of the US. The CANTV alone reported 1992 investments of $510m to upgrade telephone and telecommunications services.

An international consortium headed by GTE bought 40 per cent of shares – plus operating control – of the inefficient telecommunications concern. Foreign partners GTE, Telefonica Internacional (Spain) and AT&T (US) reportedly control 72 per cent of the consortium. Mr Bruce Haddad, CANTV's president, said that the company plans to invest $6bn over the next decade.

Venezuela's petrochemical sector, which is going through the largest expansion in its history, has attracted considerable international investment since 1989.

Some of the most important investors in new or continuing petrochemical projects are Italy's Ecofuel (a unit of ENI); Mitsui (Japan); Spain's Repsol; and three US groups – Olin, Combustion Engineering, International Finance Corp, and Dow Chemical.

In mining, Monarch Resources Ltd., a Bermuda-based company, is investing $23m in 1992-94 to develop a new gold mine, La Camorra, in Venezuela's Guayana region.

A number of other companies are also investing in different sectors. They include: Nestlé and Heinz (processed foods), Smurfit (paper); the Grupo Once from Spain (tourism); BAT Industries (tobacco and agribusiness); Procter & Gamble (personal use products); Chiquita Brands (bananas), and Iberia (international air service).

Even Venezuela's petroleum production sector, off limits to private investment since the oil industry was nationalised in 1976, has opened up. Japan's Teikoku Oil and a group made up of Benton Oil (US) and Vinccler of Venezuela signed operating agreements at the end of July 1992 covering the production of crude oil in so-called "marginal" oil fields.

The contracts call for the two groups to invest a total of $280m over the next decade. The companies will not own the fields where they operate, but will receive payments according to the volumes of crude oil and natural gas they produce for PDVSA, Venezuela's national oil company.

Last month, Venezuela's Ministry of Energy and PDVSA called on foreign and domestic companies to bid on a second series of oil production contracts. PDVSA, hit hard by a combination of low oil prices and high Venezuelan taxes, is also looking for international equity partners in areas such as exploration, production and refining, which had excluded private investment for 16 years.

Venezuela has been able to make substantial progress in foreign investment during 1992, even though a failed military uprising in February provoked a political crisis.

Foreign executives in general remain quite optimistic and give high marks to the Pérez regime for setting conditions for strong economic growth and removing barriers to international capital.

They also point out that the government, over-dependent on dwindling revenues from petroleum exports, clearly recognises the need for private capital from Venezuelan and foreign investors if the economy is to continue advancing. However, 1993 is a presidential election year and businessmen are concerned that a populist politician may assume power in 1994.

Traditionally, investors in Venezuela put new projects on hold during presidential election years as they wait to see what kind of economic policies they will be facing during the next five-year period of government. While some foreign investors may be holding back, especially for new projects that would begin in 1993, most companies expect the next government to maintain the free-market policies initiated in 1989.

Joseph Mann

Petrochemicals is expanding at rapid speed, says **Joseph Mann**

Refineries open their doors

VENEZUELA'S petrochemical sector, in the midst of the largest expansion in its history, now depends less on capital investment from the government and is trying to promote increased equity investment from abroad.

The industry is made up of a mixture of state-owned and private companies. Pequiven (Petroquimica de Venezuela), a wholly owned subsidiary of the national oil company, PDVSA, coordinates development of the petrochemical industry.

It owns three large petrochemical complexes and has several plants of its own. It is an equity partner in more than a score of joint-venture projects with Venezuelan and international investors, covering plastics, oxygenates (used to replace lead as an octane booster in motor petrol), industrial chemicals and other products.

Petrochemical projects currently rank among the most important targets for foreign investment in Venezuela. Recent projects with international partners include a 500,000 tonnes per year mtbe plant, now in operation (partners: Ecofuel, Pequiven and S.F. Mercantil); a facility for producing ethylene oxide and ethylene glycol (Olin, IFC, Corimon, Pequiven); a linear-low density polyethylene plant (Combustion Engineering; Pequiven, Grupo Zuliano and Latino Soc. Financiera); and a specialty wax plant (Repsol, Pequiven and S.F. Provincial).

In 1989-90, Pequiven initiated a programme designed to increase Venezuela's petrochemical production capacity to around 16m tonnes a year. At the time the programme was started, total capacity stood at a little over 3m tonnes; currently, capacity exceeds 5m tonnes a year.

Pequiven, which has worked in partnership with private companies for many years, has based its expansion plan on the existence of large reserves of natural gas (more than 3.1 trillion cubic metres at the end of 1991) that can be used as a feedstock for petrochemicals. While some of the new facilities are being used to supply the domestic market, most are developed with export markets in mind.

Until mid-1992, Pequiven was operating under a policy whereby it could hold equity positions of up to 49 per cent in new joint ventures.

Pequiven's owner, PDVSA, realised, however, that it was being forced into a prolonged cash-flow deficit, owing to low international oil prices, high domestic taxes and the demands of a multi-billion dollar investment programme. As a result, it decided to minimise all direct investments by Pequiven and to encourage the development of new facilities that are 100 per cent owed by private investors. PDVSA is also seeking increased foreign investment for projects in oil and natural gas.

It recently named a veteran oil industry executive, Arnold Volkenborn, as head of Pequiven. His task is to initiate the next stage of petrochemical development, whereby Pequiven will be more of a promoter than an investor. PDVSA also plans for Pequiven to offer some of its own shares to the public, and to sell part of its stock portfolio in the joint ventures.

Pequiven and the joint-venture petrochemical companies continue to make good progress. In 1991, Pequiven's fully-owned facilities produced 2.43m tonnes of products, up slightly from 1990, while the joint-venture partnerships produced 1.34m tonnes, a 30 per cent increase over the previous year. Petrochemical plants outside Venezuela where Pequiven holds full or partial ownership produced 3.5m tonnes in 1991. Pequiven had 1991 sales of $448m, and invested $439m during the year.

JOBS: Readers' replies raise disturbing question about the personalities who tend to rule the roost

Slaves to the competitive unconscious

FOR the whole of six days the Jobs column has been waiting...waiting...waiting. And since the expected event is an acid test, I now know how nuclear physicists feel when, after theorising that a certain particle must exist, they sit by their accelerators hoping it will show up in practice.

In my case, no apparatus is required to test the *theory*. All it needs is for someone to ask to borrow the book I wrote about a week ago. For the replies from you readers to that article pose a problem which....

But before going on, I'd better recapitulate lest any of you here today weren't present last week. The book is called Neanderthals at Work and its main author, American psychologist Albert Bernstein, has a theory. It is that organisations' workforces can be divided into three broad types of people, of whom only one type characteristically win promotion to the very top. The three are:

Rebels – Often creatively intelligent as well as technically expert, they're indispensable in crises. The snag is that, although willing to work without stint at things that give them a personal buzz, they have little time for routine tasks, however necessary, and still less for people problems. They therefore hardly ever climb far up managerial hierarchies.

Believers – Embodiments of the work ethic, they spare no effort even at tasks they dislike. Moreover, being fair-minded and straight-forward in their dealings, they make the kind of managers under whom other people give of their best.

Believers' strength, however, is also the root of their weakness. They draw their motivation from their faith that diligent discharge of their prescribed duties will be duly rewarded – a faith they hold so strongly as to be blind to any evidence to the contrary. Consequently, they rarely rise beyond the middle ranks.

The type who do get to the top are the *Competitors*. They are quick to learn how the company system really works as distinct from the way the official rules ordain, and they then manipulate it to serve their own ambitions. Since their motivation is the urge to win personally, they take it for granted that their way is best and so never question whether or not what they are doing is in the best interests of the company.

Now, last week's report on Dr Bernstein's theory produced a large but uncounted *number of* replies from readers, most of whom identified themselves as of one type or the other. They also included several people known to me, some of whom I have reason to believe operate as competitors.

The odd thing was that neither they nor any of the rest admitted as much. The whole lot claimed to be either rebels or believers – which set me thinking.

At first I decided it was just typical competitors' behaviour: they could hardly be expected to show their true colours, after all. But then I was struck by an awful thought.

Could it be that competitors don't *know* they're competitors?

Hence my idea of a test. What else besides hiding behind disguises would competitors inevitably do, I wondered. One that occurred to me was surely never to buy a book if they could get it on loan. So I settled down to wait for a would-be borrower, whom I could then confront with the evidence and grill to find whether he or she was masking being a competitor, or simply *unconscious* of the fact.

Alas, no one has asked for the loan. What's worse, now I've revealed the trap I was setting, the whole scheme is blown – which is a pity. For the unconsciousness or otherwise of competitors has a bearing on another of Albert Bernstein's theses which this past week fortunately has seen confirmed.

In his view, a big drawback of having competitors in command, is that their typical deviousness about the ways they manipulate company systems tends to stymie useful developments. "The only way to make meaningful change in a corporate culture is to be very specific about what that culture actually is and how it works," the book explains. "The problem is that the people who could write the explicit rules don't think it is in their best interest to do so."

Confirmation of the truth of those words has come from Pam Pocock of the Strategic People consultancy of Chertsey, Surrey. Among its activities is helping outfits whose top management wants them to change to meet new demands, which necessitates identifying the values that make up the present culture, and adjusting them as required.

In the process, besides putting out questionnaires and so on, the consultancy uses a board game it *has devised* called Dilemma. In it, staff acting the part of promotion-seeking managers are faced, in turn, with ethical problems taken from real organisational life. For example, what do you do if, while searching an absent colleague's desk for some important data, you accident*ally find a hidden* pile of neglected work? The player concerned then has not only to decide on an answer, but persuade the others that it's the best one, before being awarded promotion further up the board.

What often if not usually emerges, says Ms Pocock, is a cultural picture which differs from the one given by the initial questionnaires. First inquiries about the things staff think their ultimate bosses value tend to elicit lists headed by Teamwork, Quality, Customers and the like.

By contrast, deeper dredgings into the outfit's workings come up with terms such Traditional, Bureaucratic and Hierarchical. The Dilemma game shows that many employees are aware of the contradiction. Often the player choosing the solution will have no difficulty in persuading the rest that it's productive as well as ethically right, only to be sunk by the objection: "But it just wouldn't work in this firm, as you very well know."

"It's hard to avoid thinking a good many company leaderships are *saying one thing* and doing another," Pam Pocock adds. "In which case, if the workforce is to act differently, there must be real change right at the top."

In the Jobs column's view, however, the problem may well be deeper than that. Even if the competitors' behaviour is merely deliberate as distinct from unconscious, it is nevertheless highly contagious for people of an ambitious bent. Indeed, once the cult of winning personally has taken hold, it is apt to skewer itself through the organisation from head to foot, serving as a management training system all the more effective for being recognised only by a few. At which point it might defy the most determined as well as enlightened leader's efforts to cut it out.

So the best hope for companies bedevilled by the cult of winning might lie in the other possibility – to wit, that competitors are not competitors deliberately, but are simply unconscious of the fact. If so, there may be a chance of awakening them not only to their real identity, but to recognition of their destructive effects and the need to change their ways.

How to bring about the trans*formation* is alas something else again. After all, at least since Confucius 2,500 years ago sages have been telling competitors how to behave more productively without as yet turning the trick. But if readers have any better ideas, I'll be delighted to pass them on.

Michael Dixon

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Two sides of a single coin should draw together

Artificial distinctions between accountancy and auditing watchdogs need demolishing, says John Roques

A FUNDAMENTAL change in the framework of accounting and auditing in the UK is essential to restore public confidence in the accountancy profession.

There has undoubtedly been a crisis of confidence during the past two years. The public and the media frequently equate corporate failure with audit failure, and forget that it is by the very nature of business that some companies succeed and others fail.

This is not to say that nothing should be done to improve the scope and quality of audit or corporate reporting. I firmly believe that much can and *should* be done. *But* without significant changes which recognise the interdependence of accounting and auditing, it is unlikely that confidence in the accountancy profession will be restored.

The issue that needs to be addressed is the largely artificial distinction between the various standard-setting and regulatory activities for accounting and auditing. The position has become increasingly institutionalised and Byzantine.

The Financial Reporting Council controls the Accounting Standards Board (ASB), the Financial Reporting Review Panel, and the Urgent Issues Task Force. The Auditing Practices Board (APB) is separately controlled by the Consultative Committee of Accounting Bodies (CCAB), the body jointly owned by the leading professional accountancy bodies.

Audit regulation, disciplinary action and ethical guidance come directly from the professional bodies. My firm has long argued for removing regulation from the institutes.

The faults with the existing complex system are legion and include the following:

- Accounting and auditing standard-setters report to separate bodies.
- The Auditing Practices Board is perceived to be run by accountants for accountants. Even though it has an equal number of practising accountants and lay members, it is funded by and reports to the CCAB.
- There appear to be divergencies between the priorities of the accounting and auditing standard setters. For example, the ASB appears aloof from the APB's attempts to try to close the expectations gap – *between* what auditors do and what the public believes they do.
- The ASB is developing standards without obvious regard for their audit implications.
- The APB is raising disclosure issues which, under current arrangements, appear more sensibly to lie with ASB.

My solution is to end this distinction and put all standard setting and audit regulation under the Financial Reporting Council (FRC).

This would inspire more public confidence, since half the members of the top body, the FRC, are lay people who are not accountants.

Second, responsibility for both auditing and accounting would force the FRC to treat closing the expectations gap as the top priority for both accounting and auditing standards.

Third, it would create an unambiguous link between auditing standards setting and the process of monitoring and policing their application, a link clearly already established between the ASB and the review panel by their parent body.

John Roques: structural changes are needed to restore public confidence

Fourth, it should make things much easier for government, and reduce much of the criticism which ministers are receiving over audit matters.

I also believe the new structure would help provide a better platform for the changes that need to be made to improve confidence in corporate governance.

The Cadbury Committee on the Financial Aspects of Corporate Governance has identified a host of areas where the proposed changes should impact on both audit and financial reporting practice. Most of these have already been split arbitrarily between the ASB and the APB, even though they have implications for both.

As a result, the following problems are already emerging:

- Going Concern. A draft Auditing Guideline has been issued on assessing the future viability of companies. But it does not canvass the ways in which corporate reporting could be improved to provide users with better information with which to assess this going-concern basis.

Also proposals have been made by the APB that the "subject to" qualified audit reports should disappear and that auditors should assess the adequacy of disclosures of matters affecting a company's ability to continue as a going concern.

However, there are no parallel proposals *from the ASB as to the extent* and nature of disclosure which the corporate sector should make in relation to inherent uncertainties. As a result, a situation could emerge in which there may be no objective criteria against which auditors can make the assessment likely to be required by the APB.

- Directors' Responsibilities. The Cadbury committee recommended a statement of these responsibilities in the directors' report as a counterpart to a statement by auditors about their reporting responsibilities. Currently, this topic is the subject only of an APB exposure draft and again there could be a lack of suggested guidance for the corporate sector on the form which such a statement should take.
- Financial Reports. The Cadbury committee also recognised the advantages to users of reports and accounts of some explanation of the factors likely to influence a company's future progress. Useful steps are being taken by the ASB to develop an essentially forward-looking operational and financial review, but much thought needs to be given to developing ideas on the extent to which the auditor should review such information.

The ASB by itself does not have the remit to develop such ideas. Consequently their development could end up being rushed at the time of publication of an accounting standard, or it could lag behind. This latter situation arose when the ASB issued Financial Reporting Standard 1 on cash flow statements last year.

All of the above are merely symptomatic of the overwhelming need for the co-ordination and monitoring of APB and ASB by a *single body*. *No* doubt there is liaison already between the two bodies, but only when they are both under the FRC umbrella will many key problems be addressed properly.

Consideration could then be given to the possibility of joint accounting and audit exposure drafts and standards on expectations gap projects, as well as many other topics where there is a need for a concerted effort.

Topics which spring to mind include related party transactions and pension schemes. Such documents may individually be longer for all of us to read, but they will ensure that thought is given simultaneously to accounting and audit aspects.

That would make it much more likely that the current problems affecting the profession and corporate governance in general will be properly resolved and public confidence restored.

John Roques is senior partner and chief executive of Touche Ross, London

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Interested candidates should telephone Rachel Hannon on 071-379 3333, (Fax: 071-915 8714) or write, enclosing a detailed CV, to Robert Walters Associates, 25 Bedford Street, London WC2E 9HP.

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FINANCIAL TIMES
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If you believe you can add to the strength of our team, please write with full career details to Jean Richardson, Coopers & Lybrand, Plumtree Court, London EC4A 4HT, quoting reference FT029.

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Initially you will be appointed to the post of Financial Controller for Europe but it is envisaged that the position will be re-designated to Director status within a two-year period. Reporting to the European Managing Director you will be fully responsible for all financial aspects of five companies including business planning, statutory and management accounting, treasury, budgeting, financial strategy and systems development and enhancement. Considerable European and some Far Eastern travel will be involved.

You will be a qualified accountant, with Pan European experience, sound technical and commercial skills, a thorough knowledge of mainframe applications and be comfortable in a team environment whilst demonstrating a capacity for original thinking. Linguistic abilities would be an advantage.

The salary is negotiable and will reflect both the responsibilities of the position and the size and prestige of this major International Company. Benefits will include a two litre executive car.

Detailed letters of application and comprehensive CV's should be sent to Stephen Sheldrake FECI, Executive Director, Marriott Howard Recruitment, 630 Woodbridge Road, Ipswich IP4 4PG.

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Candidates will be qualified accountants, aged between 30 and 45, with several years' experience in the motor industry or a related commercial environment. Applicants need to be disciplined and exacting, whilst retaining flexibility and a creative approach to problem solving. Excellent interpersonal and communications skills are required, and knowledge of the German language would be a considerable advantage.

Please send a comprehensive career résumé, including salary history and daytime telephone number, and quoting reference 3279 to Vivienne Hines, Touche Ross Executive Selection, at the address below.

Touche Ross

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The generous remuneration package reflects the calibre of the individual sought. If you meet the specification, send your cv to Tony MacDonald, Ref: **EFD/FT312, PA Consulting Group**, St Brandon's House, 29 Great George Street, Bristol BS1 5QT.

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c. £35,000 + Car   Midlands

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The successful applicant will have a proven track record at senior management level and will be able to demonstrate a sound understanding of the construction industry from at least five years' experience gained in a similar environment.

Applicants should be qualified chartered accountants in the age range 30-35. The salary and executive benefits will be commensurate with the position.

Our client will have sight of all applications so please list separately any companies to whom you would not wish your application to be sent.

Full career details and current salary quoting reference D/0011 should be sent to:
Mrs J Mehmet
Price Waterhouse
Victoria House
76 Milton Street
Nottingham
NG1 3QY

Group Commercial Director

c.£35k + car + executive benefits — Humberside

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- *The successful candidate will have a thorough working knowledge of the innovation, development and implementation of information and cost control systems as related to the construction industry.*
- *Technical competence must be blended with commercial flair. Business advisory skills must be founded upon a practical, innovative approach.*
- ***If you are a qualified accountant, aged 35-50, with personal qualities including; assertiveness, drive, maturity and tenacity, please apply in writing, with CV and salary details, quoting reference F/312/B, to Paul Bailey, Ernst & Young Corporate Resources, PO Box 3, Lowgate House, Lowgate, Hull HU1 1JJ.***

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The commercial nature of this opening will appeal to individuals with proven business analysis experience gained within a product related division of a blue chip company.

The successful candidate will ideally be a qualified accountant/MBA with excellent interpersonal skills, enthusiasm and initiative.

The position will involve regular travel to the City and occasionally within Europe. Salary will be accompanied by an excellent range of benefits including company car, mortgage subsidy, non-contributory pension and private medical insurance. Excellent career opportunities also exist for the right candidate.

Candidates interested in this challenging opportunity should apply immediately by sending a full curriculum vitae to **Liam Dowds** at **Michael Page Finance, Cygnet House, 45-47 High Street, Leatherhead, Surrey KT22 8AG.**

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As a key member of the management team, the Financial Controller will be expected to lead the further development of the finance and IT systems. Significant emphasis will be placed on the ability of the candidate to implement financial control as well as contributing to the commercial management of the business.

The successful candidate will be a qualified accountant, aged up to 40, who can demonstrate a proven track record in a manufacturing/engineering environment. The company is going through a significant period of growth, therefore the ability to manage change will be a prerequisite. Excellent communication skills, high levels of drive and well developed leadership qualities will also be essential.

Interested applicants should forward a comprehensive curriculum vitae indicating salary aspirations and quoting **Ref: 103637**, to **Tony Gleeson BA, CA** at **Michael Page Finance, The Citadel, 190 Corporation Street, Birmingham B4 6QD.**

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The successful candidate, aged 25-30, will be a graduate qualified accountant of high calibre, with a successful academic record, complemented with at least two years post qualification experience, encompassing both management and financial accounting. Previous experience in a sales and marketing environment is desirable but not essential.

Successful applicants must be ambitous, demonstrating an enthusiastic and outgoing personality, supported by a professional work ethic and the flexibility to deal with the routine as well as challenging aspects of the role.

If you feel you have the background to satisfy and develop this demanding role within such a dynamic organisation, then send your curriculum vitae to **Liam Dowds** at **Michael Page Finance, Cygnet House, 45-47 High Street, Leatherhead, Surrey KT22 8AG.**

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Financial Controller/ Partnership Secretary

London **c £35,000 + Generous Benefits Package**

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A challenging opportunity has been created for an ambitious and motivated individual to establish a financial/ management support function to assist the Executive Group.

The primary responsibilities of the individual will include the preparation and presentation of operational budgets, profit and cashflow forecasts and a wide range of other management accounting information. As Partnership Secretary, you will also play a proactive role in establishing the agenda, preparing minutes and discussing specific business issues at all Executive Group and partners meetings.

Candidates, aged between 30-40, will be qualified accountants and are likely to have gained experience in a similar capacity within a professional services environment. You must possess strong PC skills and a mature attitude, together with the ability to communicate effectively at all levels.

Candidates who meet the above criteria should forward a comprehensive curriculum vitae quoting **ref: DU208**, to **Nigel Milford** at **Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LH.**

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Our client is the European development, manufacturing and distribution centre of a leading US group in the scientific instruments market. Operating in a highly competitive global marketplace, the group is pursuing an aggressive growth strategy, both organically and by way of acquisition and joint venture.

In order to strengthen their financial and commercial expertise, the company is seeking to appoint an ambitious qualified accountant with strong technical, analytical and communications skills. Reporting to the Financial Director and supported by a team of staff, responsibility will encompass all commercial and management accounting activities in relation to manufacturing, marketing, service and R&D, in addition to capital and investment appraisal and the preparation of the annual budget. This is a critical and thus high profile role and the successful candidate, as an integral part of the management team, will be expected to act as a catalyst in driving and directing the business towards goals of enhanced profitability.

Prospective candidates must be qualified accountants (probably aged 30-40) of graduate calibre and able to demonstrate a successful track record in a hi-tech manufacturing or commercial environment. In addition, candidates should possess the energy and commitment, together with the confidence and presence to operate at board level. Equally important are personal qualities including strong man-management skills and the intellectual ability to contribute to and influence strategic decision making.

Interested applicants should apply in writing, with full curriculum vitae (including a daytime telephone number and details of present remuneration) and quoting reference **LN1292** to **Bill Greenwell** at **Michael Page Finance, Centurion House, 136-142 London Road, St Albans, Herts AL1 1SA.**

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Guildford

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The firm is seeking a qualified accountant and licence holder with considerable experience in insolvency work. As there will be a strong initial emphasis on business development, excellent banking relationships in the South East are an important requirement. Candidates must possess good interpersonal and communication skills and are likely to be in the age range 30-45.

The position will be based at the firm's attractive Guildford headquarters. The salary envisaged and the opportunity for early partnership status reflect the commitment to attracting one of the best practitioners available in this field.

To apply please write in complete confidence to the firm's advisors on this appointment.

IMR Accountancy Recruitment Consultants, 3 The Fairfield, Farnham, Surrey GU9 8AH (Tel: 0252 735908).

IMR ACCOUNTANCY RECRUITMENT

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Clive Discount Company Limited, a leading discount house in the City of London and member of the London Discount Market Association, has recently formed a new subsidiary, Clive Agency Bond Broking Limited, with the intention of establishing a comprehensive broking service in Gilts, Euro-Sterling and other Foreign Bonds.

The new subsidiary company now seeks to recruit several individuals with wide experience of sales and dealing in the relevant markets.

Applicants should be high calibre, ambitious individuals who can succeed in a demanding but rewarding environment.

Career prospects are excellent for successful candidates, who will derive considerable benefit from working within a major international financial services group.

Please respond, in complete confidence, at the earliest opportunity, during office or evening hours, to either Peter Giblin or Christina Wright at Axiom Advisors Ltd, 40 Long Acre, London WC2E 9JT. Tel. 071 836 8722. Fax. 071 836 6066

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The new Bursar will report to the Headmaster and be a key player in the management team. The person appointed will take full responsibility for all non-academic functions. Extending management information systems will be a priority.

With the present Bursar retiring in late 1993, the need is for a successful senior manager, almost certainly an accountant, who has good experience of using finance as a business tool, and strong management accounting and systems development experience. A good record of human resource management is mandatory.

Intellectual capability will be demonstrated by a good degree or professional qualification.

Benefits include performance related reviews, a generous pension, thirty days holiday and fee remissions at the school.

Please reply in strict confidence, giving details of career and salary progression, age, education and qualifications to Barry Underwood, Adviser to the Governors, at Otteridge & Company, Griffin House, 161 Hammersmith Road, London W6 8BS. Please quote reference 366/FT.

OTTERIDGE
& COMPANY

Opec fails to talk up oil price

By Deborah Hargreaves

TELEPHONE DIPLOMACY briefly talked up the oil price yesterday as ministers from the Organisation of Petroleum Exporting Countries tried to restore oil traders' faith in last week's agreement.

But futures traders remain sceptical that Opec can stop the slide in world oil prices, which have lost over $1 a barrel since last week. In volatile trading, the price of North Sea Brent crude for January delivery closed at $18.15 a barrel, a drop of 25 cents.

Brent prices had recovered slightly after a weak opening, following strong statements from Opec, but the market lost its gains at the close of trading.

"The Opec agreement is all right under the circumstances but with a surplus in product stocks, it was just not enough," said Mr Andy LeBow, a trader at E.D. & F. Mann in New York.

Prices on the New York Mercantile Exchange weakened after a report by the American Petroleum Institute on Wednesday that US crude stocks rose by 1.08m barrels last week to 325.15m barrels. The January crude futures price slipped 33 cents yesterday to $19.12 a barrel.

Opec is stressing that last week's agreement to cut output to 24.58m barrels a day will cover sales to the market and not just well-head production. This means the organisation will not release stocks on to the market if supply becomes tight this winter.

However, oil companies are holding substantial stocks of oil products such as gasoline and distillates which could depress the market if colder winter weather does not increase demand.

Where paper profits are growing up a gum tree

THE MONKEY puzzle is probably Chile's best-known contribution to the world of trees. But its commercial use being prohibited, the country's timber business is built on the pine and other softwoods that thrive in its temperate climate, writes David Lascelles in Santiago.

Five hundred miles south of the capital, near the provincial town of Los Angeles, a newer industry is evolving round the eucalyptus. Once imported from Australia, the tree is now a familiar sight in the rolling hills of Chile's south central region.

The eucalyptus has taken well to Chile. In the right conditions it grows as much as a foot a month, reaching a harvestable height of 25 metres within eight to ten years.

Much of the pioneering work is being done by Santa Fe Group, a wood pulping joint venture 60 per cent owned by Royal Dutch Shell, and 20 per cent each by Scott Paper and Citibank, which converted some of its outstanding Chilean debt into the investment. Founded in the late 1980s, Santa Fe now owns 49,000 hectares (120,000 acres) of plantations, of which 32,500 are planted.

According to Mr Ian Powell, resource manager in the forestry division, much of the land needed thorough restoration before it could be used. Years of cattle farming had compacted the soil, requiring it to be ploughed to a depth of 80 cm to loosen it up. Large quantities of fertiliser and weedkiller were also needed to "control the competition", as he puts it.

In the nurseries on the outskirts of Los Angeles, the company is developing two strains: *eucalyptus globulus* and the more frost-resistant *eucalyptus nitens*. Considerable work has gone into genetic improvement using cloning technology developed by Shell researchers at their laboratory in Sittingbourne in Kent.

The highly automated nurseries have a capacity for 10m seedlings, which are grown under wide net tents and watered with a special mix of nutrients fed by sprinklers. The seedlings are kept for up to 10 months before being planted out.

The nursery and plantations will eventually provide all the raw material for Santa Fe's pulping plant to the west of Los Angeles. But at the moment the 18-month-old facility still has to buy in a third of its annual 800,000-cubic metre requirement from other sources.

The importance of eucalyptus is that it provides a ready source of short-fibre pulp, as opposed to the long fibre in pine wood. Short fibre has special uses, such as tissues.

The plant's output is 250,000 tonnes a year and the bulk of its $100m-a-year sales go to Scott Paper affiliates.

Although Santa Fe marks an advance for the Chilean timber industry, its timing has been bad. Mr Nick Whalley, the executive vice president, expects recent softness of the pulp market to delay the venture's move into profit. "The short term profitability is not good," he says, "but we project substantial financial returns two to three years from now."

One of the heavy costs in establishing the plant has been environmental control, which Mr Pedro Navarette, the plant's environmental engineer, estimates to have accounted for $28m of the investment. Like many foreign ventures, Santa Fe is expected to abide by the highest environmental standards, while local, state-owned competitors have more leeway.

Palladium price pushed to highest for 21 months

By Kenneth Gooding, Mining Correspondent

PALLADIUM, A platinum group metal used by the electrical and dental industries and by car catalyst producers, was at the centre of a speculative overnight rally in New York and Tokyo and then its price was fixed in London yesterday morning at $101.80 a troy ounce, the highest since April, 1991.

Mr Neil Carson, marketing director, platinum, for Johnson Matthey, the precious metals group, suggested that underlying the rise was a sharp increase to 10 per cent in the rate for leasing palladium. This was probably the highest level seen for two years and well above the cost of money.

Many palladium leases were due to mature in December and some users were almost certainly borrowing US dollars to buy the metal rather than renewing their leases. This would put more pressure on a market which JM believed would this year suffer a supply deficit. Mr Carson recalled that a recent JM study suggested palladium supply, including sales to the west from Russia, the world's biggest producer, would this year total 3.75m ounces while demand would move up to 3.86m, leaving a shortfall of 110,000 ounces.

The electrical industry, which uses about 1.8m ounces a year and where palladium is employed mainly in multi-layer ceramic capacitors found in products such as computers and video recorders, and the dental industry (1.2m ounces a year), which uses it in alloys to fill teeth, provide most of the demand for the metal. But palladium for anti-pollution car catalysts is expected to grow by a third this year and show the fastest growth.

Palladium's price eased to $100.85 an ounce at the afternoon "fix" in London yesterday, up $3.35. Some analysts expected the price to fall back to $98 but others suggested that, if it closed above $103 in New York it could climb towards $127.

Brazilian orange boost

By Bill Hinchberger in Sao Paulo

THE 1992-93 orange harvest in the Brazilian state of Sao Paulo should be 18 per cent higher than last season at 289.6m boxes, 6 per cent above previous expectations, according to an industry study.

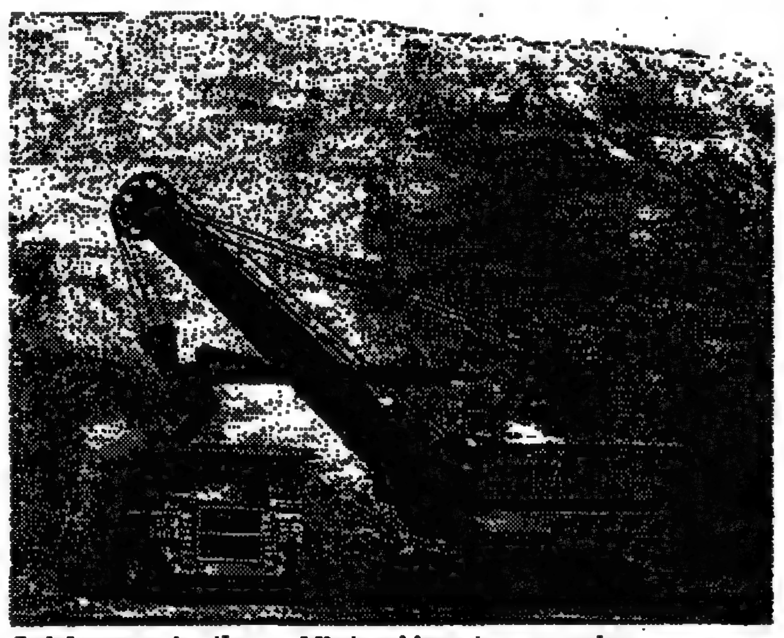
Sao Paulo accounts for 98 per cent of Brazil's orange output.

The increase in Brazilian production and a 34 per cent jump in Florida output are primarily responsible for the lowest juice prices in 16 years, said Mr Ademerval Garcia, president of the Brazilian Association of Citrus Exporters. Brazil's higher yield results mainly from high rainfall.

Chile prepares copper for the melting pot

Leslie Crawford on tentative steps on the road to a controversial partial privatisation

THE CHILEAN government is understood to be considering the division of Codelco, the state copper company, into four independent units as a first step towards the partial privatisation of the world's biggest copper producer.



Codelco operates the world's two biggest copper mines

Opening Codelco to private investors is seen as the best long-term solution to a number of problems afflicting the company. The government is trapped in a double-bind: the income it gets from Codelco is falling and at the same time it has been unable to allocate sufficient investment funds to reverse the trend of rising production costs and dwindling reserves at Codelco's existing mines.

In 1989, Codelco's net earnings mustered almost $2bn, or 6.5 per cent of GDP, for the treasury. This year the figure is expected to drop to below $900m. According to TASC, a group of economic consultants to the Chilean parliament, lower copper prices forecast for next year will further reduce Codelco's contribution to about $400m or 1 per cent of GDP.

Codelco, which owns a third of all registered mining property in Chile, has a list of projects it wants to develop, alone or with partners in the private sector, and has asked the finance ministry for a $600m investment budget next year. The company's executives think, however, that they will be lucky to get $450m.

"As a state company, we compete with health, housing and education for the government's limited resources," says Mr Ignacio Guerrero, Codelco's financial director. Codelco's executives have won the backing of the finance ministry for divesting non-core businesses to raise extra investment funds. Top of their list is Tocopilla, the 530 Mw power plant in the Atacama desert that feeds electricity to Chuquicamata and La Escondida, the world's two biggest copper mines.

Executives say selling Tocopilla could finance the $450m development of Radomiro Tomic, an ore body near Chuquicamata, which could be producing 150,000 tonnes of copper a year from 1995, if the project goes ahead as planned. Codelco has also discovered another important copper deposit near Chuquicamata, named M.M., which has reserves of between 650m and 900m tonnes.

The privatisation of Tocopilla is being resisted by the Mining Minister, Mr Alejandro Hales, and the Copper Workers' Union (CTC), neither of which wants to see Codelco dismembered. Union sentiment is running so high that even the relatively innocuous move to split off Codelco's maintenance works from the Teniente division sparked protests and go-slows this month.

The Mining Ministry has invited Codelco's management and the union later this month to discuss the company's modernisation. Given the almost sacrosanct nature of Codelco's public ownership, enshrined in the Chilean constitution, modernisation has become a codeword in Chile for ideas such as divestiture and privatisation that cannot be named openly.

Mr Ivan Valenzuela, the deputy mining minister, says the main topics under discussion will be how to generate more resources for the development of Codelco's mineral deposits. "We are trying to prepare the ground so that there is the least possible political resistance to the government's plans," he says.

As a first step, says the deputy minister, the government would like to decentralise management to give Codelco's four divisions – Chuquicamata, El Teniente, Salvador and Andina – more autonomy in the running of their own affairs. Many inefficiencies, he says, are now masked by cross-subsidies.

There will also be an attempt to persuade the 19,000-strong CTC that divesting from Tocopilla, where only 500 jobs are at stake, will allow the creation of more mining jobs in Codelco's new projects. The company's management wants to discuss other ways of raising investment finance. One proposal gaining support is to tap the $15bn of savings managed by Chile's private pension funds and insurance companies.

Mr Alejandro Foxley, Chile's finance minister, is preparing new legislation to widen the investment options open to private pension funds. Although the details have yet to be made public, the new law might allow pension funds to take part in project finance, including the new mines Codelco wants to develop. The idea is likely to please nationalists of both right and left, as the pension funds would be channelling domestic savings into the development of the state copper industry.

The pension funds are eagerly awaiting the new investment regulations. But they say they will measure Codelco's projects against the same criteria that they use to analyse other investment options. "We will look at the risk and the return. Nobody can force pension funds to invest in Codelco," says Mr Augusto Iglesias, a pension fund consultant.

From there, Codelco's executives argue, it is a short step to opening up the company to new shareholders. However, the mining ministry insists that the ownership of Codelco is not under discussion. "This is not the right political moment for a blitzkrieg," Mr Valenzuela says.

With general elections in Chile only one year away, however, Mr Valenzuela concedes that the nature of Codelco's ownership will be a political issue on the platform of every party. Mr Ricardo Lagos, the Socialist presidential candidate, says there should be no "sacred cows" as far as Codelco's future is concerned. "The main problem of privatising Codelco," he says, "is having one partner, the armed forces, which take 10 per cent of Codelco's gross sales". This amounted to $277m last year.

Mr Lagos believes the military rights over Codelco's earnings will have to be scrapped for privatisation to become a realistic proposition. But this in turn would require a revision of military income and expenditure - a subject which remains strictly out of bounds for civilians despite the formal end of military rule in 1990.

● Codelco's El Teniente division has negotiated collective wage agreements with two unions representing 1,600 workers, a quarter of the total workforce. Although the present two-year contracts do not expire until July 1993, Codelco offered to bring forward wage negotiations to avoid a repetition of the damaging wage strikes that hit El Teniente and Chuquicamata in 1991.

The new two-year contracts for the unions that agreed to advance wage negotiations come into effect immediately. They include a no-strike bonus of 310,000 pesos ($830), higher productivity incentives and a profit-sharing scheme for Codelco's employees.

Codelco executives have hailed the agreement as a new departure in labour relations. Mr Pedro Courard, El Teniente's general manager, said the absence of labour strife and lower absenteeism in 1992 had allowed the mine to step up output this year to 300,000 tonnes of refined copper, from 276,000 tonnes in 1991. He said El Teniente planned to invest $712m between 1993-2000 to bring new areas into production.

Although the mine still has huge reserves, most of these are located in brittle primary rock which are costly and difficult to exploit.

Indian mine project cancelled

By Kunal Bose in Calcutta

HINDUSTAN COPPER has decided not to go ahead with the development of the Malanjkhand underground copper ore mine after failing to find a foreign joint venture partner.

On its own, Hindustan Copper, an Indian government undertaking, is not in a position to mobilise Rs20bn (£470m) to finance the mine development and a 60,000 tonnes-a-year copper smelter.

According to Mr Ved Leekha, the company's chairman, Hindustan Copper sought to interest Outokumpu of Finland, Codelco of Chile and Mamaco of Zambia in the project. Bishimetal Exploration of Japan has estimated in its feasibility report that up to 5m tonnes of copper ore can be extracted from the underground mine of Malanjkhand in Madhya Pradesh. The Malanjkhand reserves are estimated at 275m tonnes.

The viability of the project, according to Mr Leekha, has also become somewhat doubtful as the copper content in the Malanjkhand ore is now found to be less than 1 per cent, with hardly any traces of silver and gold, compared with the 1.23 per cent thought earlier.

Mr Leekha said that Hindustan Copper had now two alternatives. It might develop the mines "with or without a cut-off grade" and go up to the copper concentration stage. The concentrates would then be smelted abroad. Alternatively, to keep the investment low, Hindustan Copper might opt for mining of 2.5m tonnes of ore. In either case, the company would seek a private sector partner, whether local or foreign.

India's domestic production of copper will be 45,150 tonnes this year, while demand is estimated at 160,000 tonnes.

WORLD COMMODITIES PRICES

MARKET REPORT

Prices on the LME continued to fluctuate irregularly as the market sought to establish a fresh set of trading ranges after, apparently, bottoming out of its bear trend, traders said. Setbacks found support at well above levels ruling a month ago but there is still considerable resistance to stall prices before a significant rise can gather momentum. Support for three-month **COPPER** is being found on dips to around $2,180 a tonne whereas in early November support was in the $2,125-$2,130 band. Three-month **ZINC** and **ALUMINIUM** seem to be underpinned at $1,070 and $1,200 compared with $1,030 and $1,160 respectively. London's robusta **COFFEE** futures were showing signs of resuming their uptrend by the close after absorbing a bout of profit-taking. Dealers said the mood on fundamentals and technicals remained bullish after Wednesday's rise to a 10-month peak. London **COCOA** ended near the day's lows on sterling's strength against the dollar and the French franc.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)(Jan)		+ or -
Dubai	$18.05-8.10	-0.35
Brent Blend (dated)	$18.15-8.20	-0.25
Brent Blend (Jan)	$18.10-8.15	-0.25
W.T.I (1 pm est)	$19.10-9.20	-0.30
Oil products (NWE prompt delivery per tonne CIF		+ or -
Premium Gasoline	$195-197	-3
Gas Oil	$174-176	-1.5
Heavy Fuel Oil	$76-78	-3.5
Naphtha	$172-174	-2.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$335.75	-0.7
Silver (per troy oz)♣	376.5c	-0.5
Platinum (per troy oz)	$363.50	-0.25
Palladium (per troy oz)	$100.85	+3.35
Copper (US Producer)	101.0c	
Lead (US Producer)	33.5c	
Tin (Kuala Lumpur market)	14.63r	+0.46
Tin (New York)	269.5c	
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	114.75p	+1.04*
Sheep (live weight)†♠	78.28p	+3.77*
Pigs (live weight)†	89.09p	+1.37*
London daily sugar (raw)	$219.4w	+0.4
London daily sugar (white)	$252.5w	+0.1
Tate and Lyle export price	£249.5	-1.5
Barley (English feed)	£138.0z	
Maize (US No. 3 yellow)	£155.0	
Wheat (US Dark Northern)	Unq	
Rubber (Jan)♥	62.75p	-0.25
Rubber (Feb)♥	63.00p	-0.25
Rubber (KL RSS No 1 Jan)	224.0m	
Coconut oil (Philippines)§	$477.5y	
Palm Oil (Malaysian)§	$407.5z	
Copra (Philippines)§	$317.5	
Soyabeans (US)	£168.5u	-0.5
Cotton "A" Index	53.80c	+0.1
Wooltops (64s Super)	420p	-7

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Jan/Feb u-Jan. w-Dec/Jan. z-Jan/Mar. †Meat Commission average fatstock prices. * change from a week ago ♥London physical §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♠Sheep prices are now live weight prices.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Mar	192.00	189.80	
White	**Close**	**Previous**	**High/Low**
Mar	254.00	254.00	254.50 253.00
May	257.30	257.00	257.00 256.50
Aug	263.30	263.40	262.80 262.50
Oct	251.00	251.00	250.50

Turnover: Raw 0 (18) lots of 50 tonnes. White 295 (534) Paris- White (FFr per tonne)- Mar 1385.50 May 1418.61

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low
Jan	18.13	18.34	18.32 18.04
Feb	18.16	18.37	18.34 18.06
Mar	18.16	18.39	18.32 18.07
Apr	18.16	18.38	18.29 18.14
May	18.20	18.35	18.25 18.20
Jun	18.10	18.33	18.27 18.10
Jul	18.15	18.32	18.18 18.16
IPE Index	18.38	18.70	

Turnover 31915 (44580)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low
Dec	169.50	172.25	171.25 169.25
Jan	171.25	174.50	173.25 171.25
Feb	172.75	175.50	174.00 172.25
Mar	171.25	173.50	172.25 171.00
Apr	169.00	170.50	170.25 169.00
May	167.75	168.75	168.00 167.75
Jun	168.75	167.75	167.50 168.00
Jul	168.75	169.25	169.00 168.75
Aug	170.75	171.00	170.00

Turnover 20403 (17072) lots of 100 tonnes

FRUIT & VEGETABLES

Grapes from Spain are this weeks best buy at around 40-55p a lb reports the FFVIB. Good buys for Christmas include; *Satsumas at 35-40p a lb, clementines at 40-45p a lb* and glove boxed dates at £1.20-1.35 each. Leeks at 45-55p a lb, cauliflower at 35-50p each, Brussels sprouts at 15-25p a lb and Savoy cabbage at 25-35p a lb continue to be great value for money this week. Look out for different sized cucumbers, ranging in price from 40-70p each. Celery at 40-60p a head, spring onions at 40-50p a bunch and flat lettuce at 25-35p a head round up this weeks best salad buys

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Dec	698	704	707 695
Mar	727	735	736 723
May	744	750	751 739
Jul	758	766	766 755
Sep	774	780	782 773
Dec	796	802	801 793
Mar	817	822	823 815
May	833	837	840
Sep	862	869	863

Turnover: 2993 (3159) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Dec.2 791.47 (787.75) 10 day average for Dec 3 781.65 (781.25)

COFFEE – London FOX $/tonne

	Close	Previous	High/Low
Jan	990	985	991 975
Mar	1005	999	1000 990
May	998	997	992 984
Jul	989	1002	998 987
Sep	999	1015	1004 999

Turnover 3063 (3897) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Dec.2: Comp. daily 61.53 (61.28) 15 day average - 58.57 (58.10)

POTATOES – London FOX £/tonne

	Close	Previous	High/Low
Apr	64.5	63.3	64.5 63.5
May	70.0	68.5	69.5
Apr	90.0		90.0

Turnover 46 (42) lots of 20 tonnes

SOYAMEAL – London FOX £/tonne

	Close	Previous	High/Low
Dec	150.00	148.00	

Turnover 0 (0) lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low
Dec	1315	1272	1315 1290
Jan	1291	1260	1292 1265
Feb	1270		1270 1265
Apr	1264	1245	1265 1260
Jul	1130	1120	1130 1130
Oct	1337	1310	1337 1330
BFI	1332	1324	1332

Turnover 192 (122)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low
Jan	132.75	134.15	132.75 131.25
Mar	135.05	136.15	135.05 133.00
May	137.10	138.40	137.45 135.40
Sep	106.50		106.50 106.50
Nov	109.50	110.50	109.50
Barley	**Close**	**Previous**	**High/Low**
Jan	132.20	133.65	133.00 131.25
Mar	134.20	135.75	134.30 134.00
May	136.00		136.00

Turnover. Wheat 798 (522), Barley 95 (414).
Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Jan	104.0	105.00	

Turnover 0 (1) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 19,978 lots
Cash	1183.5-84.5	1188-89		1184-84.5		
3 months	1206-07	1211-12	1217/1206	1207-07.5	1207-08	183,573 lots
Copper, Grade A (£ per tonne)						Total daily turnover 15,417 lots
Cash	1386.5-87.5	1400-01	1383.5/1382	1383-83.5		
3 months	1410.5-11	1423-24	1415/1405	1408.5-09	1411-12	154,622 lots
Lead (£ per tonne)						Total daily turnover 2,024 lots
Cash	293.5-94.5	296.5-96.5		292-93		
3 months	304.5-05	305.5-06	306/303	302.75-3.25	304.5-05	24,924 lots
Nickel ($ per tonne)						Total daily turnover 5,327 lots
Cash	5570-75	5545-50	5535-45	5560-70		
3 months	5845-50	5820-25	5760/5600	5845-50	5830-40	40,691 lots
Tin ($ per tonne)						Total daily turnover 1,796 lots
Cash	5835-45	5805-15		5820-30		
3 months	5880-900	5880-70	5970/5860	5865-75	5870-80	10,739 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 9,465 lots
Cash	1062.5-63.5	1058-60	1057	1057-58		
3 months	1080.5-81.5	1077-78	1087/1072	1075-76	1083-84	75,134 lots

LME Closing £/$ rate: SPOT 1.5665 | 3 months: 1.5546 | 6 months: 1.5434 | 9 months: 1.5361

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	335.60-335.90	
Opening	335.80-336.20	
Morning fix	336.90	216.600
Afternoon fix	335.25	214.286
Day's high	336.00-336.20	
Day's low	335.20-335.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	1.91	6 months	2.32
2 months	1.96	12 months	2.60
3 months	2.00		

Silver fix	p/troy oz	US cts equiv
Spot	241.30	375.50
3 months	245.40	379.30
6 months	249.25	382.85
12 months	256.55	390.75

GOLD COINS

	$ price	£ equivalent
Krugerrand	334.50-337.50	213.00-215.00
Maple leaf	345.35-347.65	-
New Sovereign	78.50-81.50	50.00-52.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jan	Apr	Jan	Apr
1150	53	84	7	15
1175	36	67	13	22
1200	22	52	25	32
Copper (Grade A)	**Calls**		**Puts**	
2100	85	116	8	18
2150	47	81	19	33
2200	22	54	43	54
Coffee	**Jan**	**Mar**	**Jan**	**Mar**
900	91	115	1	12
950	47	79	7	26
1000	17	51	27	46
Cocoa	**Mar**	**May**	**Mar**	**May**
700	50	73	23	30
725	37	59	35	41
750	27	47	50	54
Brent Crude	**Jan**	**Feb**	**Jan**	**Feb**
1800	33	64	13	35
1850	14	39	38	58
1900	4	17	72	

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Dec	335.5	335.9	335.9	335.4
Jan	336.0	336.5	0	0
Feb	336.4	336.9	337.0	336.2
Apr	337.6	338.2	338.4	337.4
Jun	339.2	339.8	340.2	339.1
Aug	341.0	341.6	0	0
Oct	342.8	343.5	0	0
Dec	344.8	345.4	346.3	345.3
Feb	347.7	347.7	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jan	364.7	364.1	369.5	364.1
Apr	363.6	362.8	364.0	362.5
Jul	362.2	361.8	363.0	362.3
Oct	364.2	363.8	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Dec	374.0	373.3	376.5	372.5
Jan	375.4	374.3	0	0
Feb	377.3	376.2	0	0
Mar	378.3	377.2	380.0	376.5
May	381.2	380.1	383.0	380.0
Jul	383.9	382.8	384.5	383.0
Sep	386.8	385.7	386.0	386.0
Dec	391.4	390.4	392.5	391.0
Jan	392.7	391.7	0	0
Mar	396.7	395.7	396.0	396.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	96.45	97.00	96.90	96.40
Jan	96.90	97.40	97.35	96.90
Feb	97.35	97.90	97.50	97.50
Mar	97.75	98.30	98.30	97.70
Apr	98.10	98.70	0	0
May	98.60	99.20	99.05	98.65
Jun	98.90	99.50	0	0
Jul	99.30	99.90	99.60	99.45
Aug	99.60	100.20	0	0
Sep	99.95	100.50	100.10	100.00

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jan	19.11	19.45	19.40	19.02
Feb	19.20	19.47	19.46	19.12
Mar	19.29	19.51	19.50	19.20
Apr	19.37	19.54	19.54	19.30
May	19.41	19.55	19.54	19.39
Jun	19.42	19.56	19.55	19.43
Jul	19.46	19.57	19.58	19.45
Aug	19.50	19.65	19.58	19.50
Sep	19.60	19.69	19.58	19.50
Oct	19.50	19.60	19.67	19.50

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jan	54.20	55.81	55.40	54.00
Feb	55.00	56.38	56.00	54.95
Mar	54.80	55.91	55.70	54.80
Apr	54.00	54.88	54.70	54.00
May	53.15	53.86	53.70	53.15
Jun	52.75	53.45	53.35	52.85
Jul	53.25	53.76	53.70	53.20
Aug	54.00	54.30	54.30	53.90
Sep	55.20	55.46	55.60	55.05
Oct	56.15	56.40	56.45	56.10

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	985	987	986	986
Mar	1022	1027	1028	1017
May	1049	1054	1056	1044
Jul	1071	1077	1076	1070
Sep	1093	1099	0	0
Dec	1130	1134	0	0
Mar	1165	1169	1170	1165
May	1185	1191	1193	1185
Jul	1206	1212	1217	1212
Sep	1232	1233	1232	1231

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	75.60	74.25	75.50	73.60
Mar	76.50	75.55	76.80	74.85
May	79.70	78.70	79.95	78.40
Jul	81.20	80.10	81.50	80.00
Sep	82.60	81.75	83.00	81.60
Dec	84.70	83.90	85.20	83.90
Mar	86.00	86.00	87.00	87.00

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	8.54	8.52	8.64	8.45
May	8.68	8.65	8.69	8.59
Jul	8.75	8.73	8.72	8.69
Oct	8.78	8.74	8.78	8.70
Mar	8.87	8.81	0	0
May	8.96	8.86	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Dec	59.00	58.43	59.00	57.50
Mar	58.55	58.01	58.70	56.96
May	59.60	59.10	59.70	59.00
Jul	60.45	59.95	60.40	59.95
Oct	60.30	60.60	60.60	59.60
Dec	60.00	60.15	60.20	59.20
Mar	60.75	60.70	60.78	60.05
May	61.15	61.25	60.99	60.99

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	98.65	98.50	101.60	98.00
Mar	101.45	102.20	104.10	101.40
May	102.00	103.00	104.50	103.40
Jul	103.50	102.25	103.50	103.50
Sep	102.50	101.50	103.60	102.50
Nov	102.50	101.25	103.00	102.50
Jan	96.60	101.25	0	0
Mar	98.60	101.25	102.00	102.00
May	98.00	101.25	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Dec.3	Dec.2	mnth ago	yr ago
1672.3	1674.1	1663.0	1628.4

DOW JONES (Base: Dec. 31 1974 = 100)

	Dec.2	Dec.1	mnth ago	yr ago
Spot	120.96	120.46	114.40	116.32
Futures	119.92	120.22	116.46	121.70

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	563/2	562/4	564/6	559/4
Mar	567/2	566/4	569/0	564/0
May	572/4	572/0	574/4	569/4
Jul	577/6	577/0	579/4	574/6
Aug	578/6	578/2	581/0	577/4
Sep	576/0	577/2	580/4	576/0
Nov	583/6	582/6	586/4	581/2
Jan	591/6	590/6	0	0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Dec	20.30	20.37	20.42	20.20
Jan	20.42	20.49	20.56	20.31
Mar	20.63	20.68	20.77	20.52
May	20.73	20.80	20.84	20.62
Jul	20.82	20.87	20.92	20.70
Aug	20.81	20.86	20.90	20.75
Sep	20.83	20.87	20.90	20.80
Oct	20.83	20.80	0	0

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Dec	180.2	178.3	180.5	178.2
Jan	180.6	178.9	181.1	178.6
Mar	181.2	179.6	181.6	179.4
May	182.2	181.1	183.0	181.2
Jul	184.4	183.4	186.0	183.8
Aug	186.7	184.2	186.0	184.3
Sep	186.1	185.2	187.0	186.1
Oct	188.5	186.5	188.5	188.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	211/6	210/2	212/4	210/0
Mar	220/6	219/6	221/6	219/2
May	228/2	227/4	229/2	227/0
Jul	233/4	232/6	234/2	232/2
Sep	237/6	237/4	238/4	237/0
Dec	243/0	242/6	243/4	242/0
Mar	250/0	249/6	250/0	249/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	376/4	373/0	378/4	372/0
Mar	363/2	362/4	367/0	360/4
May	350/0	347/0	351/0	345/0
Jul	326/2	322/2	326/4	321/0
Sep	331/4	328/4	0	0
Dec	342/0	340/0	342/0	340/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	76.600	76.425	76.725	76.425
Feb	74.100	73.675	74.250	73.825
Apr	74.275	74.175	74.450	73.950
Jun	71.050	71.000	71.175	70.725
Aug	69.450	69.375	69.600	69.200
Oct	69.500	69.930	70.200	69.750
Dec	70.050	70.050	70.200	70.000

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Dec	44.075	44.125	44.300	43.675
Feb	42.850	43.050	43.300	42.600
Apr	40.900	41.025	41.225	40.650
Jun	45.300	45.250	45.600	45.025
Jul	45.050	44.900	45.250	44.800
Aug	43.900	43.800	43.960	43.600
Oct	40.700	40.900	40.750	40.650
Dec	42.850	43.100	42.900	42.700

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	38.250	38.625	38.800	38.050
Mar	38.450	38.875	38.950	38.300
May	39.650	40.150	40.050	39.500
Jul	40.425	40.800	40.800	40.300
Aug	39.100	38.825	39.500	39.100

LONDON STOCK EXCHANGE

US houses active in London equities

By Terry Byland, UK Stock Market Editor

VOLATILE trading in the London stock market yesterday left share prices firm at the close of a session featured by the presence of several of the US securities houses. There was a slightly cool reception for a batch of profits statements from leading UK companies but, once again, there was little sign of significant selling.

The FT-SE Index closed 6.9 up at 2,771 after moving through a 20 points range during the session. Heavy buying of the stock index futures by a US house rescued the underlying equity market from a dull start which saw the Footsie down by 6.1 in early trading. Later, the Index for December rose sharply as sterling advanced sharply against the D-mark and showed a 13.6 gain at 2,777.7 at the day's best. But the mid-session gain was then in turn trimmed as Wall Street opened uncertainly to show a fall of 5.6 on the Dow in UK trading hours.

Traders expressed satisfaction with the market's performance against a potentially troubling backcloth yesterday, which included the continued turmoil in Hong Kong equities and poor economic data from Germany.

Two sizeable trading programmes were identified and ascribed to two of the largest US houses; a third was known to have been a heavy buyer of the December futures contract on the FT-SE Index. The past week has brought more favourable news on the US economy and dealers will focus on today's announcement of the latest US employment statistics.

The trading programmes helped swell the day's Seaq-reported volume total to 669.5m shares from Wednesday's 624.2m; retail volume remained high on Wednesday and was worth a total of £1.26bn.

The day's list of corporate reporting features included Hanson and Grand Metropolitan, both US-influenced stocks. Hanson's half year figures found a satisfactory response but Grand Metropolitan disappointed some investors.

The firmness in sterling in the second half of the session, while not necessarily helpful for overseas earning companies, was regarded as favourable for prospects for the cut in base rates pencilled in by stock market analysts for soon after Christmas.

Most of the activity was in the blue chip internationals, indicating the presence of the US investment houses. Reuters RTZ and ICI all found buyers and there was some selective demand among the pharmaceutical stocks. UK store and retail issues held steady as sector analysts began to look for signs of some recovery in consumer spending which would boost Christmas spending patterns.

UK banking stocks also looked firmer, with Royal Bank of Scotland supported following the results, despite the expected news on bad debts. HSBC rallied from the losses suffered in the wake of the fall in the Hong Kong stock market as some UK strategists began to predict that the Far Eastern market was due for a recovery in confidence.

Market strategists remained fully confident, commenting that it was not unexpected that the London market should jib at breaking through the FT-SE 2,800 mark after rising so rapidly over the past week. The general consensus that the Footsie will close just above 2,800 at the end of the calendar year seemed to be holding firm.

Account Dealing Dates

*First Dealings:	Nov 16	Nov 30	Dec 14
Option Declarations:	Nov 26	Dec 10	Dec 30
Last Dealings:	Nov 27	Dec 11	Dec 31
Account Day:	Dec 7	Dec 21	Jan 11

*New time dealings may take place from 8.30am two business days earlier.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ADT	8	460	+5
ASDA Group	13,000	30½	-2
Abbey National	4,800	373	-5
Albert Fisher	1,900	58	
Allied-Lyons	1,600	645	+5
Amstrad	360	28	
Anglian Water	1,200	465	+2
Argos	185	286	+3
Argyll Group	2,800	365	+7
Arjo Wiggins	693	134	+2
Ass. Brit. Foods	697	488	+10
Ass. Brit. Ports	81	322	+5
BAA	3,100	750	+10
BAT Inds.	955	905	+4
BET	2,300	97	+1
BICC	716	388	-1
BOC	867	738	+1
BP	10,000	230½	-4
BPB Inds.	1,600	146	+2
BT	4,600	414	
BT New	4,900	309	-1½
BTR	17,000	[illegible]	+½
Bank of Scotland	2,200	120	+3
Barclays	5,950	367	+2
Bass	3,700	600	+15
Berisford Intl.	785	18	-½
Blue Circle	2,009	175	-2
Booker	1,300	[illegible]	-6
Boots	1,000	530	+5
Bowater	724	472	+9
Brit. Aerospace	6,600	142	+14
British Airways	4,200	275	
British Gas	4,200	279½	+1½
British Land	542	185	-3
British Steel	8,400	67½	+½
Bunzl	2,100	108	
Burmah Castrol	854	697	
Burton	5,800	65	+1½
Cable & Wire.	4,400	650	+7
Cadbury Schweppes	2,700	469	+1
Calor Group	135	219	-1
Carlton Comms.	1,050	718	-4
Coats Viyella	2,309	214	-2
Comm. Union	[illegible]	595	-12
Cookson	2,400	171	
Courtaulds	2,300	546	+5
Dalgety	992	475	+4
De La Rue	658	869	+2
Dixons	1,200	202	+4
Eastern Elect.	1,300	403	+3
East Midland Elect.	1,700	396	-1
Eng China Clays	1,600	441	-11
Enterprise Oil	125	455	+1
Eurotunnel Units	108	345	
Lonrho	1,600	89	+1
Lucas	4,600	136	+2
MB Caradon	2,700	284	-1
MEPC	2,600	330	-2
Marley	[illegible]	465	-3
Marks & Spencer	6,500	326	
Midlands Elect.	176	449	+4
NFC	558	277	+1
NatWest Bank	3,300	385	-5
National Power	[illegible]	273½	-1
Next	1,700	136½	-1½
Shell Transport	2,500	544	-6
Siebe	1,600	390	+16
Slough Ests.	257	142	
Smith (W.H.) A	151	499	+1
Smith & Nephew	2,400	164	
SmithKline Beecham	4,900	518	-6
SmithKline Beecham Uts.	2,100	456	-5
Smiths Inds.	56	356	+2
Southern Elect.	80	421	+1
South Wales Elect.	224	464	-1
South West Water	376	498	+8
Utd. Newspapers	64	497	+1
Vodafone	3,300	403	+6
Warburg (SG)	31	487	+1
Wellcome	510	1044	+2
Welsh Water	274	520	+8
Wessex Water	583	557	+3
Whitbread 'A'	716	456	+4
Williams Hldgs	1,200	312	+2
Willis Corroon	1,300	178	
Wimpey	376	101	-4
Wolseley	586	305	
Yorkshire Elect.	330	465	-1
Yorkshire Water	601	506	+5

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

Fisons deal expected

STRONG rumours that Fisons will shortly announce the sale of its remaining consumer health and horticulture businesses, lifted the shares. A price tag of £300m was suggested by the market. Last week, the group sold the US divisions of the same businesses for $140m to Ciba-Geigy, at the same time inviting bids for the remainder of its operations in these areas worldwide.

The proposed disposals would transform Fisons balance sheet. Mr Robin Gilbert at James Capel: "This would put the company into cash surplus and is further evidence of determined management action." German group E Merck is said to be interested in Fisons vitamin business, which includes the popular Sanatogen line. Other names being suggested include Boots, whose shares rose 5 to 530p yesterday.

More good news on Fisons came from the US where an industry newsletter reported that the group was in discussions with third parties in the US over the production of its Imferon and Opticrom drugs, according to analysts in London. Both drugs have failed to meet US production regulations. The shares rose 10 to 223p.

Hanson active

Despite recording a full-year profit fall for the first time, Hanson saw its shares climb towards their peak at one time after reporting figures above most analysts' expectations. Later, however, the gain melted away and the shares closed unchanged on the day at 236p in London on heavy turnover of 13m.

Profits came in at £1.286bn against £1.316bn last time but the group increased the dividend by four per cent. The industrial and consumer divisions performed well but the building arm was hit by a slump in the company's UK aggregates business. After the figures, Hanson held an international conference call with US analysts for the first time. Following a tightly controlled analysts meeting, UK researchers came away concerned by what they saw as a veiled warning on UK profits for the current year, a higher tax charge, and the acquisition accounting employed by the company. It was those worries that led to the retreat in the shares just ahead of the market close.

However Mr Jack L. Kelly, Goldman Sachs US-based Hanson analyst said; "I was quite pleased with the results. They came in above my estimate of £1.05bn." He said he was keeping the stock on his select list in the US and Goldman Sachs top European stocks.

Figures from Grand Metropolitan received a mixed response, although the post-results meeting with analysts produced more positive comments. Mr Graeme Eadie at County NatWest said that while the increase in marketing expenditure would be rewarded, worries remained over earnings growth particularly in the short-term. He downgraded his figures 5 per cent to £972m for the current year and remains a hold. Others were more positive. Kleinwort Benson upgraded 10 per cent to £991m and said that the 12 per cent discount to the market make the shares a buy. Strauss Turnbull, citing the positive current trading news, also upgraded, forecasting £1bn for 1993 and remaining a buyer. The shares retreated 12 to 428p.

Bass recovered from Wednesday's results mauling, Nikko and Strauss recommending the stock. The shares rose 15 to 600p. Guinness shed 9 to 534p after Grand Met suggested weak spirit price inflation.

Shares in international conglomerate BTR gave up an early gain of 5¼ after broker Smith New Court placed a block of 7m shares at 516p. Several dealers talked of initial problems in finding a home for the total amount. The stock had however been cleared by the close of business which helped the shares firm a ½ to 518p, on total turnover of 17m.

Shares in Royal Insurance fell early in the day after the company announced a £70m convertible bond issue. The issue was however later reported to have been oversubscribed, though sentiment remained depressed by fears of large claims for flood damage. By the close the shares had fallen 12 to 253p, in heavy trade of 7.4m with some dealers saying some investors were selling stock to take up the issue.

Shares in Abbey National fell 5 to 373p, after it was reported that Moody's, the US credit rating agency, had downgraded some of the banks.

HSBC had a volatile session. Early in the day the shares fell 25 to 455p, following heavy falls in Honk Kong Bargain hunters however came in later in a big way which and helped the shares close 5 up at 485p, after heavy trade of 23m shares.

Also busy was Royal Bank of Scotland. The shares jumped 8 to 189p, following a positive meeting after the release of full year figures in line with market forecasts. Turnover rose to 13m.

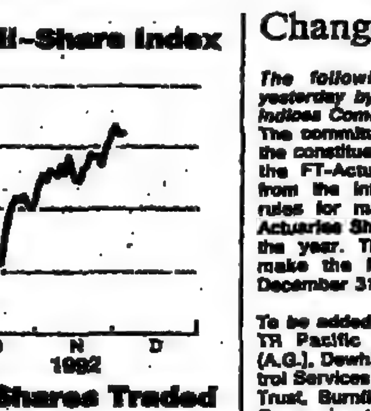
Turnover in BP rose to 10m as the shares fell 4 to 230p, on the back of the weakened oil price. Mr John Toalster at Strauss Turnbull said: "Investors realise falling oil prices will play havoc with BP's cash flow and balance sheet."

Alexon fell heavily after issuing a trading warning. The shares retreated 27 to 98p.

MARKET REPORTERS:
Joel Kibazo,
Christopher Price.

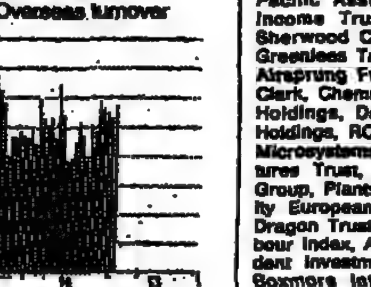
■ Other market statistics, Page 27

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: intra-market business & Overseas turnover



NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (98). [illegible] HEALTH & HOUSEHOLD (1) Swallowfield, INVESTMENT TRUSTS (1) Drayton Recovery, MISCELLANEOUS (3) Fil, Hornby, MOTORS (1) DAF N/V, PACKAGING, PAPER & PRINTING (2) High-Point, Intl. Coqua, & Data, PROPERTY (2) Bredero, Bucknell, Power, STORES (2) Alexon, Stylo, TEXTILES (3) Hardin, Ingham, Lamont, TRANSPORT (1) IoM Steam, MINES (5) East Rand, Northern Platinum, Placer Res., Precious Metals, Renison.

Changes to FT-A All-Share index

The following notice was issued yesterday by the FT-SE Actuaries UK Indices Committee:

The committee met today to consider the constituent changes to be made to the FT-Actuaries All-Share arising from the introduction of the ground rules for management of the FT-SE Actuaries Share Indices at the end of the year. The committee agreed to make the following changes from December 31 1992.

To be added to the FT-A All-Share: TR Pacific Investment Trust, Barr (A.G.), Dewhirst Group, Industrial Control Services Group, Malvern UK Index Trust, Burnfield, Forth Ports, Tunstall Group, Lowland Investment Co, New Frontiers Development Trust, Jones Stroud (Holdings), Jarvis Porter Group, Pacific Assets Trust, TR Far East Income Trust, Rathbone Brothers, Sherwood Computer Services, Gold Greenlees Trott, Acatos & Hutcheson, Airsprung Furniture Group, Matthew Clark, Chemring Group, Bristol Water Holdings, Dawson Group, Mid Kent Holdings, RCO Holdings, Sirdar, CML Microsystems, London American Ventures Trust, Admiral, Jupiter Tyndall Group, Plantsbrook Group, API, Fidelity European Values, Castings, EFM Dragon Trust, Brown & Jackson, Barbour Index, Avonside Group, Independent Investment Co, Dalepak Foods, Boxmore International, Calderburn, Intercare Group, Reliance Security Group, Finsbury Growth Trust, Erskine House Group, Greenfriar Investment Co, Electronic Data Processing, Manchester United, Saville Gordon (J.) Group, Boosey & Hawkes, Marling Industries, Hall Engineering (Holdings), Ash & Lacy, Stirling Group, Ivory & Sime, Mayflower Corp'n, British Data Management, Bemrose Corp'n, Moorgate Investment Trust, Foreign & Colonial Germany Inv. Trust, Stoddard Sekers International, Baltic, Foreign & Colonial Enterprise Trust, Securiguard Group, Gartmore Emerging Pacific Inv. Trust, Tay Homes, Reed Executive, Neotronics Technology, London Scottish Bank, Campari International, Martin Currie Pacific Trust, Great Southern Group, Taylor Nelson AGB, Continental Assets Trust, Smith New Court, Trafford Park Estates, Kleinwort Endowment Policy Trust, Everest Foods, Scottish Value Trust, AAF Industries, Abtrust New Dawn Investment Trust, Maddox Group, Church & Co, Ross Group, Vistec Group, Prospect Industries, Epwin Group, Faber Prest, Metro Radio Group, Ulster Television, Protean, Lee (Arthur) & Sons, Hill & Smith Holdings, Value & Income Trust, European Motor Holdings, Lionheart, Paribas French Investment Trust, TR European Growth Trust, Alexandra Workwear, Aberdeen Trust, Burtonwood Brewery, Fleming Fledgeling Investment Trust, Maunders (John) Group, Young & Co's Brewery, Radio Clyde Holdings, Relyon Group, CIA Group, German Smaller Companies Inv. Trust, Selective Assets Trust, North British Canadian Investment Co, Casket, Elswick, McCarthy & Stone, Rutland Trust, Henderson Highland Trust, Second Market Investment Co, GEI International, Whewey, Tie Rack, Dolphin Packaging, Starmin, Wolstenholme Rink, Benson Group, German Investment Trust, Baggeridge Brick, Isotron, Henlys, TR High Income Trust, Headline Book Publishing, Beta Global Emerging Market Inv. Trust, Ashtead Group, Henderson Strata Investments, Ipeco Holdings, Hampson Industries, Exeter Preferred Capital Inv. Trust, Perry Group, Helene, S & U, Ricardo International, Chloride Group, Herring Baker Harris Group, Fleming European Fledgeling Inv. Trust, Haggas (John), ISA International, Quality Care Homes, Page (Michael) Group, Morgan Grenfell Equity Income Trust, Grampian Television, Servomex, Leslie Wise Group, Porvair, Country Casuals Holdings, Hicking Pentecost, Sheffield Insulations Group, I & S UK Smaller Companies Trust, Moss Bros Group, Rosebys.

To be excluded from the FT-A All-Share under Rule 4.8 governing liquidity of trading: Camellia, Derwent Valley Holdings, Greycoat, Higgs & Hill, Lilley, P & P, Tops Estates, Warnford Investments.

Secondary lines to be excluded from the FT-A All-Share: Paterson Zochonis, Gestetner Holdings, Macdonald Martin Distilleries. (The weighting of the primary lines of these companies will be adjusted to reflect the full value of the company.)

All-Share constituents which are outside the FT-SE Actuaries 350 will form the FT-SE SmallCap, to be introduced from December 31 1992.

The FT will publish a complete list of the SmallCap constituents in Monday's paper.

FINANCIAL TIMES EQUITY INDICES

	Dec 3	Dec 2	Dec 1	Nov 30	Nov 27	Year ago	*High	Low
Ordinary share	2091.7	2097.8	2106.5	2095.9	2077.4	1822.4	[illegible]	[illegible]
Ord. div. yield	4.42	4.43	4.41	4.44	4.47	5.06	[illegible]	[illegible]
Earning yld % full	6.06	6.07	6.03	6.06	6.12	7.57	[illegible]	[illegible]
P/E ratio net	21.12	21.08	21.21	21.04	20.90	16.59	[illegible]	[illegible]
P/E ratio nil	19.44	19.40	19.52	19.36	19.25	15.66	[illegible]	[illegible]
Gold Mines	71.4	70.1	71.1	70.4	68.8	163.9	[illegible]	[illegible]

*for 1992 Ordinary share index since compilation: high 2148.7 22/9/92 - low [illegible]. Gold Mines index since compilation high: 734.7 15/2/83 - low 43.5 26/10/71. Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2091.4	2104.9	2097.8	2095.3	2091.8	2095.5	2097.0	2095.0	[illegible]	[illegible]	[illegible]

Volume	Dec 3	Dec 2	Dec 1	Nov 30	Nov 27	Year ago
SEAQ Bargains	25,785	28,749	29,853	33,894	34,656	24,252
Equity Turnover(£m)†	-	1264.9	1207.1	1100.5	1197.7	937.84
Equity Bargains†	-	34,072	34,601	30,801	38,322	22,158
Shares traded (ml)†	-	576.0	534.2	550.4	592.0	501.5

† Excluding intra-market business and overseas turnover.

London report and latest Share Index Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

EQUITY FUTURES AND OPTIONS TRADING

STOCK index futures were enlivened yesterday by the appearance of a US house as a buyer of more than 200 of the December contracts and also by extensive rolling-over of December positions into the March contract, writes Terry Byland. December moved up sharply to regain the 2,000 mark, albeit briefly. Traders interpreted the move to roll-over positions into the first of the 1993 contracts as "very bullish."

In early trading, December showed a premium of around 20 points against the cash market – 2,805 was the high water mark for the contract. Pressure eased off later but at the close the December contract was still showing a comfortable premium of about 4 points above its fair value premium of 5 against cash.

Open positions of around 35,000 December contracts imply substantial roll-over requirements of at least 20,000 contracts before the end of the month, indicating that daily volumes will move above yesterday's level, according to strategists.

Traded options were busy, recording 32,955 contracts against 22,510 in the previous session. Business in the FT-SE contract increased from 9,715 to 10,874. Individual stocks were headed by Asda with 6,673 contracts. Also active were stocks featuring in the day's list of corporate reports. Hanson recorded 1,427 contracts and Grand Metropolitan 952.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2771.0 +6.9	2654.9 +4.1	1312.13 +2.81

	Dec 3	Dec 2	Dec 1	Nov 30	Nov 27	Year ago	1992 High	1992 Low	Since compilation High	Since compilation Low
FT-SE 100	2771.0	2764.1	2792.0	2778.8	2760.1	2407.0	2792.0	2281.0	2792.0 1/12/92	986.9 23/7/84
FT-SE Mid 250	2654.9	2650.8	2644.5	2637.5	2627.0	2332.8	2825.0	2157.8	2825.0 20/5/92	1379.4 21/1/86
FT-SE-A 350	1338.4	1335.4	1345.5	1339.7	1331.5	1165.4	1345.5	1103.1	1345.5 1/12/92	664.5 14/1/86

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	15.10	High/day	Low/day
FT-SE 100	2758.4	2773.7	2768.7	2767.8	2765.5	2773.0	2776.6	2774.3	2771.7	2777.7	2758.0
FT-SE Mid 250	2648.6	2654.8	2651.9	2650.6	2650.5	2652.5	2653.7	2654.7	2654.5	2655.3	2648.6
FT-SE-A 350	1333.0	1339.5	1336.5	1336.8	1335.9	1339.0	1340.5	1339.7	1338.7	1340.9	1332.8

Gross dividend yield (ACT at 25%) FT-SE 100: 4.37%

FT-Actuaries All-Share

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Thursday December 3 1992 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj 1992 to date	Wed Dec 2 Index No.	Tue Dec 1 Index No.	Mon Nov 30 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (175)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 Building Materials (23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 Contracting, Construction (26)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Electricals (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 Electronics (28)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6 Engineering-Aerospace (6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 Engineering-General (43)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 Metals and Metal Forming (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9 Motors (15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10 Other Industrials (18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21 CONSUMER GROUP (192)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Brewers and Distillers (25)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Food Manufacturing (19)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Food Retailing (18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Health and Household (26)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29 Hotels and Leisure (18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30 Media (26)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
31 Packaging, Paper & Printing (17)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Stores (33)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
35 Textiles (10)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 OTHER GROUPS (115)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Business Services (17)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Chemicals (22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Conglomerates (10)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44 Transport (13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Electricity (16)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
46 Telephone Networks (4)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47 Water (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Miscellaneous (22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 INDUSTRIAL GROUP (482)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51 Oil & Gas (18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59 500 SHARE INDEX (500)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61 FINANCIAL GROUP (82)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Banks (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 Insurance (Life) (6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Insurance (Composite) (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67 Insurance (Brokers) (10)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Merchant Banks (6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 Property (30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 Other Financial (14)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Investment Trusts (69)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99 ALL-SHARE INDEX (651)	1312.13	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-SE Actuaries 350 Industry Baskets

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	15.10	Close	Previous close	change
Construction	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Health&H	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banks	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Additional information on the FT-SE Actuaries Share Indices [illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

BRITISH FUNDS - Cont.

[illegible]

BRITISH FUNDS - Cont.

[illegible]

OTHER FIXED INTEREST

[illegible]

Continued on next page

LONDON SHARE SERVICE

AMERICANS

Notes	Price £	+ or −	1992 high	1992 low	Mkt Cap£m	Yld Gr's
Abbott Labs ... h	[illegible]	[illegible]	21	[illegible]	[illegible]	1.9
Allegheny & W ...	411p	—	[illegible]	225p	[illegible]	4.6
Amdahl ...	[illegible]	—	[illegible]	[illegible]	[illegible]	1.4
Amer Cyanamid ...	37	[illegible]	[illegible]	[illegible]	[illegible]	2.8
Amer Express ...	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.4
Amer T & T ...	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.7
Ameritech ...	[illegible]	−1½	[illegible]	32½	[illegible]	5.2
BankAmerica ...	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.7
Bankers NY ...	[illegible]	—	44	[illegible]	[illegible]	4.2
Bell Atlantic ...	30	[illegible]	31½	[illegible]	[illegible]	5.5
BellSouth ...	31½	—	[illegible]	25	[illegible]	5.6
Bethlehem Steel ...	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–
Bowater ...	[illegible]	—	[illegible]	[illegible]	[illegible]	4.8
CPC ... h	[illegible]	[illegible]	33	[illegible]	4,078	2.4
Cadiz Land Inc ...	[illegible]	—	[illegible]	108p	–	–
California Engy ...	[illegible]	—	[illegible]	[illegible]	177.3	–
Chase Manhattan ...	[illegible]	—	[illegible]	[illegible]	2,504	4.4
Chrysler ...	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.9
Citicorp ...	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–
Colgate-Palm ...	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.1
Cont'l Bank ...	[illegible]	−17	[illegible]	[illegible]	[illegible]	3.0
Dana ...	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.5
Data General ...	761p	−11	[illegible]	[illegible]	[illegible]	–
Decora Inds ...	[illegible]	—	[illegible]	[illegible]	–	–
Dun & Brad ...	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.9
Exxon ...	47	[illegible]	[illegible]	32½	[illegible]	2.9
Echlin ...	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.3
FPL ...	[illegible]	—	[illegible]	[illegible]	[illegible]	6.9
Fluor ...	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.9
Ford Motor ...	[illegible]	[illegible]	[illegible]	15	[illegible]	2.3
Gen Elect ...	[illegible]	[illegible]	55	[illegible]	[illegible]	3.0
General Host ...	[illegible]	−12	[illegible]	[illegible]	–	[illegible]
Gillette ...	[illegible]	[illegible]	40	[illegible]	[illegible]	1.2

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	1992 high	1992 low	Yld Gr's	NAV	Dis or Prm(-)
Scottish Inv		181	—	194	147	3.8	211.8	14.5
Warrants		36	+1	38	21	–	–	–
Scot Mortgage		176	+½	176	136	3.8	201.8	13.1
Scot National Inv		79	+½	107	65¾	14.8	–	–
Cap		18	—	42	12½	–	34.4	44.8
Stepped Pf		151¼	-½	165½	120	6.3	–	–
Zero Div Pf		204	—	204	169½	–	–	–
Warrants		8	—	9	3	–	–	–
Scot Value		[illegible]	—	[illegible]	40	–	–	–
Sec Alliance		[illegible]	-1	[illegible]	1006	3.5	[illegible]	0.0
Second Market		[illegible]	—	[illegible]	222	[illegible]	1508.8	10.6
Sec Tst Scot		72¼	+½	75½	61	[illegible]	282.1	13.6
Select Assets		107	-½	108	70½	[illegible]	77.0	6.2
Eq Ind Sall		126	—	126	108	[illegible]	140.9	20.1
Eq Ind Stall		126	—	126	106	4.6	–	–
SHIRESCOT		128	—	[illegible]	98	4.6	–	–
Shires		227	—	[illegible]	166	–	102.1	2.0
11pc Cr Ln '03/04		£110½	—	£110½	£95½	[illegible]	222.8	-0.4
Siam Select		[illegible]	—	100	68	[illegible]	–	–
Warrants		[illegible]	—	21	10	[illegible]	132.0	25.3
Smaller Cos		[illegible]	+1	85	68	–	–	–
Warrants		13	—	20	10	4.8	78.5	12.8
Sphere Inv		12	—	39	8½	–	[illegible]	-45.4
Zero Div Pf		78½	—	78½	63¼	34.4	21.3	45.9
Sumit		39	—	55	30	–	–	–
TR City of Lon		121	-½	127½	97½	4.6	83.2	61.4
TR Euro Growth		76	—	90	70	6.2	120.4	0.7
Pkg Sub		39	—	54	33	2.4	[illegible]	24.5
TR Far East Inc		109	-2	116	76	8.5	–	–
Warrants		17	-1	22	12	5.5	115.4	5.5
TR High Inc		108	—	111	81	–	–	–
Sub		23	+1	38	21	7.4	108.4	-1.1
TR Pacific		102	-2	107	70	8.7	–	–
TR Prop		17½xd	—	27	14½	6.3	104.7	3.1
TR Smaller		125	+1½	132	95	‡	25.8	34.2
TR Technology		36	—	39	18	3.8	143.8	10.2
Units		1910	—	1920	1700	6.1	153.4	76.2

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

INVESTMENT COMPANIES

MEDIA

MOTORS

OIL & GAS

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

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AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Grofund American	5	149.8	151.4xd	159.4	-0.90	0.00
AIB Grofund Equity	5	196.0	198.6	210.1	-0.50	1.96
AIB Grofund Euro	5	142.1	144.0	151.5	-0.90	0.99
AIB Grofund Ext Market	3	96.00	97.68	100.7	+0.40	0.00
AIB Grofund Gilt	3	74.29	74.32	76.62	+0.09	5.57
AIB Grofund Japan	5	122.0	123.4xd	129.9	-0.90	0.00

AXA Equity & Law Unit Tst Mngrs (1200)H
Equity & Law Hse, Corporation St, Coventry 0203 553231

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
General Inc	5	390.5	392.5	417.6	-1.9	3.04
General Acc	5	425.2	427.5	454.8	-2.0	3.04
UK Growth Acc	6	286.6	291.0xd	309.6	-0.7	3.44
UK Growth Inc	6	205.4	208.5xd	221.9	-0.5	3.44
Higher Inc Acc	6	491.0	499.5xd	531.4	-0.8	4.82
Higher Inc Inc	6	302.9	308.1xd	327.8	-0.5	4.82
Gilts/Fxd Int Acc	5¼	165.6	165.6	174.9	+0.1	6.88
Gilts/Fxd Int Inc	5¼	89.23	89.23	94.25	+0.09	6.88
Nth America	6	244.5	249.6xd	265.6	-3.0	0.00
Far East	6	220.7	221.7xd	235.9	-4.2	0.28
Europe	6	195.4	196.1	208.7	-3.1	0.69
Brit Excell	6	59.06	59.06xd	62.83	-0.17	3.51
Brit Fndmtls Acc	6	74.35	74.35	79.10	-0.07	5.64
Brit Fndmtls Inc	6	58.36	58.36	62.09	-0.05	5.64
Global Opps	6	60.36	60.94xd	64.84	-0.92	0.00

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Gilts & Fixed Int	6	125.6	125.6xd	133.2	....	7.13
High Inc Equity	6	130.3	133.1	141.5	....	6.01
Worldwide Bond	6	251.8	251.8xd	266.8	-1.5	4.69
American Growth	6	258.4	258.4	276.3	-3.2	.72
Asian Pacific	6	169.4	173.0	184.0	-8.1	1.22
Assets & Earnings	6	197.2	201.3xd	214.1	-0.3	3.05
Capital Reserve Acc	0	123.9	123.9	124.2	....	5.99
Comdty & Energy	6	62.86	62.86	67.22	-0.17	1.23
1992 Enterprise	6	68.90	68.90	73.68	-0.04	2.92
Euro Capital Acc	6	97.48	97.48	104.2	-0.4	1.00
Euro Capital Inc	6	92.37	92.37	98.79	-0.35	1.01
General	6	178.8	178.8	191.2	-0.6	3.03
Japan	6	85.00	85.00	90.90	-0.72	-
Mastertrust	6	97.02	97.02	103.7	-1.0	2.09
UK Growth Acc	6	144.5	144.5	154.5	-0.3	3.68
UK Growth Dist	6	90.00	90.00	96.25	-0.3	3.73
US Emerging Cos	6	101.3	103.2	109.7	-0.8	-
Income & Growth	6	309.2	309.2xd	330.6	-0.6	4.23
Ethical	6	53.83	55.31	58.83	-0.10	3.31
International	6	70.16	71.28	75.83	-0.88	1.36

Britannia Life Unit Managers Ltd (1200)F
190 West George St, Glasgow G2 2PA 041-332 3132

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Balanced Growth	6	83.08	84.19xd	90.04	+0.94	2.40
Do (Accum)	6	90.71	91.91	98.30	+1.02	2.40
Smaller Cos	6	60.97	60.97xd	65.21	+0.01	2.61
Do (Accum)	6	65.92	65.92	70.51	+0.01	2.61
Higher Yield	6	33.35	33.35xd	35.67	-0.13	5.57
Do (Accum)	6	45.09	45.09	48.22	-0.18	5.57
American Gth Inc	6	48.68	48.92	52.32	-0.25	0.16
Do (Accum)	6	49.61	49.85	53.32	-0.26	0.16
European Growth	6	85.51	85.51	91.45	-0.91	2.09
Do (Accum)	6	86.30	86.30	92.30	-0.92	2.09
Global Bond Inc	6	26.56	26.61xd	28.44	-0.34	5.11
Do (Accum)	6	32.63	32.96	34.94	-0.41	5.11
Managed P'folio Inc	6	29.22	29.30	31.34	-0.13	0.00
Do Accum)	6	29.30	29.39	31.43	-0.13	0.00
Pacific Growth Accum	6	75.69	75.69	80.96	-1.67	1.03
Intl Spc Opps Accum	6	69.11	70.06	74.93	-0.60	1.83

Brown Shipley & Co Ltd (1000)F
9-17 Perrymount Rd Haywards Hth 0444 412262

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Mngd P'folio Inc	6	79.45	79.45	84.61	-0.30	2.46
Mngd P'folio Acc	6	148.8	148.8	158.5	-0.5	-
UK General	6	126.6	126.6xd	134.8	+0.2	3.76
Conv & General	6	16.41	16.41xd	17.64	+0.03	8.75
European Inc	6	20.45	20.45	22.06	-0.17	0.51
European Acc	6	21.12	21.12	22.78	-0.18	-
Financial	6	94.43	94.43	100.6	-0.4	4.42
Foundation	6	60.68	62.40	66.46	-0.36	4.22
German	6	37.44	37.44xd	40.15	-0.35	0.10
Growth Inc †(5-1)	5	26.33	26.37xd	28.08	-0.14	3.30
Growth Acc †(5-1)	5	30.66	30.70	32.70	-0.16	-
High Income	6	63.23	63.44	68.51	-0.11	6.06
Income	6	103.9	105.1	113.5	+0.3	5.11
Intl Income	6	81.39	81.39	86.68	-0.52	5.56
Intl Growth ♦	6	29.57	29.57xd	31.49	-0.81	0.25
Monthly Income	6	57.23	59.26	63.11	+0.05	5.34
North American	6	96.19	96.19	102.4	-1.2	0.21
Orient ♦	6	87.73	87.73	94.34	-2.53	-
Recovery	6	27.28	27.42xd	29.61	-0.16	3.99
Smaller Cos Acc	6	195.1	195.1	207.8	+0.4	-
Smaller Cos Inc	6	114.3	114.3	121.7	+0.3	1.89

Beycourt Unit Tst Mgmt Ltd (1400)F
Neilreth Hse, Portman Sq, W1H 0JR 071-935 6382

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Income Growth	1	182.3	182.3	187.21	....	6.67

Buckmaster Mangmt Co Ltd (1200)H
15 St Botolph Street, London EC3A 7JJ 071-247 4542

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Fellowship Tst ♥	5¼	55.29	55.29	58.61	+0.22	2.16
(Accum Units) ♥	5¼	61.65	61.65	65.35	+0.24	2.16
Income	5¼	184.1	186.4	198.3	-0.3	4.50
(Accum Units)	5¼	418.5	423.6	450.7	-0.8	4.50
Smaller Co's	5¼	93.49	93.49	99.10	-0.44	2.88
(Accum Units)	5¼	110.0	110.0	116.6	-0.5	2.88
Inv Portfolio ♥	3	60.40	60.40	62.51	-0.13	2.56
(Accum Units) ♥	3	67.66	67.66	70.03	-0.15	2.56
High Income Port ♦	3	52.06	53.06	54.98	+0.19	6.25

MGM Unit Managers Ltd (1000)F
MGM House, Heene Rd, Worthing
Dealing: 0277 261010 Enq: 0903 204631

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income	5	234.2	238.2xd	253.3	-0.1	5.66
(Accum Units)	5	398.9	405.8	431.7	-0.1	5.66
UK Growth	5	302.1	304.7xd	324.1	-0.7	3.22
(Accum Units)	5	376.2	379.4	403.6	-0.8	3.22
Int Equity Gth ‡	5	53.51	53.68xd	57.10	-0.88	1.15
Intl Bond	5	62.89	62.89xd	66.10	+0.45	6.16
Special Sits Cmlk	5	15.33	15.73	16.73	-0.13	2.42
North American Gwth	5	85.26	85.62	91.08	-0.73	0.92
European Growth ‡	6	54.45	54.73xd	58.24	-0.73	1.06

Guide to pricing of Authorised Unit Trusts
Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♣) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH. Tel: 071-379 0444.

FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Grs
Sharp (Albert E.) & Co (1000)F						
Admin: 5 Rayleigh Rd Hutton, Brentwood Essex						
Enquiries: 0277 227300 Dealing: 0277 261010						
Intl Bond & Conv	5	116.60	116.90	123.00	-0.30	5.63
Pooled Pension	3½	140.7	145.3	150.4	-	-
Smaller Cos	5	50.75	32.50	35.26	-0.02	2.71
UK General	5	121.70	113.40	119.40	-1.30	5.52
Sheppards Unit Trust Mngmt Ltd (1200)F						
1 White Hart Yard, London Bridge SE1 071-407 5966						
Income	5	363.30	363.30	388.10	(z)	5.36
Global Inc	5	51.57	51.57	54.66	(z)	4.45
Brit Leaders	5	307.20	307.20	325.63	(z)	3.16
Intl Leaders	5	165.26	165.26	175.18	(z)	1.87
Fas Ret Bal Fund Acc	3½	48.69	49.86	51.80	-	3.28
Fas Ret Bal Fund Inc	3½	48.69	49.86	51.00	-	3.38
Slater & Friedlander UT Mgmt Ltd (1000)F						
PO Box 224, Beckenham, BR3 4TF 081-663 3003						
European Trust	6	46.35	46.43	49.40	-0.19	1.66
Far Eastern Tst	6	50.26	50.84	54.14	-1.05	0.91
Smaller Cos	5	113.0	117.0	125.2	+0.5	2.95
Smith & Williamson Unit Tst Mgrs (1600)F						
1 Riding House St, London W1A 3AS 071-637 5377						
S & W American	5	264.2	264.7xd	280.1	-4.7	0.91
S & W Capital	5	106.7	106.7	114.2	-0.6	1.87
S & W Cash	0	101.37	101.37	101.37	+0.01	6.86
S & W European	5	105.0	105.2	111.2	-0.1	1.29
S & W Far Eastern	5	106.6	107.6	113.6	-1.6	0.05
S & W Growth	5	114.2	115.5xd	122.2	-0.6	1.34
S & W Income	5	99.42	100.7	106.3	-0.2	5.49
S & W Magnum	5	112.7	112.7	120.9	-0.6	1.81
S & W Smllr Secs	5	249.2	255.1xd	269.9	+0.3	0.71
S & W Throgmorton	5	129.8	129.8xd	139.2	-0.9	1.87
Société Générale Touche Remnant (1600)F						
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-348 1250						
4 Hourly Pricing – 12 Noon Historic						
American Gwth	5¼	73.79	73.79	78.91	-0.84	0
Eur Sp Sits Acc	5¼	40.04	40.04	42.64	-0.58	0
Eur Sp Sits Inc	5¼	37.81	37.81xd	40.27	-0.55	0
Far East Opps Inc	5¼	24.91	24.91	26.87	-0.80	0
Far East Opps Acc	5¼	25.59	25.59	27.60	-0.82	0

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Grs
Whittingdale Unit Tst Mgmt Ltd (0830)F						
2 Honey Lane, London EC2V 8BT 071-600 0462						
Challenger	2½	86.31	86.31xd	88.32	-0.16	0.00
Short Dtd Gilt	1½	105.8	105.8	107.2	+0.20	1.93
U.S. Govmnt Bond	1½	[illegible]	[illegible]	[illegible]	[illegible]	0.00
Gilt Income	4	50.82	50.82	52.88	+0.06	8.68
Gilt Growth	4	62.44	62.44xd	64.99	+0.07	0.00
City Reserve	0	99.23	99.23	99.23	[illegible]	7.88
Woolwich Unit Trust Managers Ltd (1700)H						
1 White Oak Square, Swanley BR8 7AG 0705 388046						
Stockmarket Fd F.	5	62.15	61.42	65.34	+0.11	2.54

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	+ or -	Yield Grs
Baillie Gifford & Co Ltd				
Int'l Exps Nov 30	657.4	680.8		1.02
Baring Investment Mngmt Ltd				
155 Bishopsgate, London EC2M 3XY				
071 214 1050 (general enquiries) 071 214 1004 (dealing)				
Charitable Funds				
UK Growth & Income	50.70	52.54	+0.63	4.2
Income Plus	48.25	49.21	-0.14	7.5
James Capel Fund Managers Ltd				
Managed Exempt	121.345	128.489	-0.393	4.19
Cent. Bd. of Fin. of Church of England				
2 Fore Street, London EC2Y 5AQ 071-588 1815				
Inv Fund Oct 31	544.70	548.30	-	5.40
Fxd Int Sec Oct 31	151.40	152.10	-	9.53
Deposit Fund: See Money Market Trust Funds				
Charinco/Charishare (1000)F				
33 King William Street, EC4R 9AS 071-280 2800				
Charinco Inc	170.1	172.1xd	-0.10	9.53

INSURANCES

	Bid Price	Offer Price	+ or -	Yield Grs
AEGON Life Assurance Co (UK) Ltd				
AEGON Hse, Lanark Sq, London E14				
Life Series 2				
Aggressive Ptflio Fund	118.7			
Balanced Ptflio Fund	138.4			
Cautious Ptflio Fund	137.6			
Elite Fund	123.7			
European Fund	92.0			
Far East Fund	86.0			
Fixed Interest Fund	284.7			
International Fund	233.6			
Money Fund	234.1			
N. American Fund	189.0			
Property Fund	336.4			
UK Equity Fund	429.2			
AJ M. Brown Dyn Fund	97.7			
Swiss Select Invt	85.6			
Sheppards Mgd Fund	112.6			
Sovlen Global Fund	143.0			
Hardwick Tst Fund	81.4			
Short Dated Mgd Acc Fd	93.3			
Perpetual Mngd Fd	155.8			
With Profits Fd	176.0			
Pension Series 3				
Aggressive Ptflio Fd	104.8			
Balanced Ptflio Fd	103.0			
Cautious Ptflio Fd	107.4			
Elite Fund	100.1			
European Fund	99.8			
Far East Fund	85.9			
Fixed Interest Fund	118.2			
International Fd	94.1			
Money Fund	109.0			
North American Fd	138.9			
Property Fund	99.6			
UK Equity Fd	103.8			
Short Dated Mgd Acc Fd	85.0			
Perpetual Mgd Fd	114.0			
With Profits Fd	108.8			
Bldg Soc Growth Fd	110.3			
Albany Life Assurance Co Ltd				

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Continued on next page

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Prolific Life & Pensions Ltd

Stramongate, Kendall, Cumbria LA9 4UB 0539 733733

Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Balanced Grth Mngd	620.6	660.3	-5.4	-
Adventurous Mngd	148.7	158.2	-0.5	-
Cautious Mngd	119.9	127.6	-0.3	-
Cash Fd	314.1	331.0		-
Property Fund	217.5	231.4	..	-
Equity Fund	708.8	754.1	-4.8	-
Fxd Int. Fund	392.2	413.3	...	-
International	316.9	337.2	-2.8	-
High Income	542.3	577.0	-2.1	-
Far East	410.1	436.3	-8.2	-
North American	419.6	446.4	-1.0	-
Special Sits	497.7	529.5	-1.6	-
Technology	418.0	444.7	-2.5	-
Extra Inc Fd	298.5	317.6	+0.4	-
Convertible & Gilt Fd	143.2	152.4	-0.2	-
American Income	167.4	178.1	-0.7	-
Gilt Fund 20	431.2	458.8	+0.1	-
European Fund	113.1	120.4	-0.5	-
Pref & Fixed Int	107.5	114.4	...	-
UK Blue Chip	112.8	118.9	-0.1	-
Recovery Fund	103.9	109.5	-0.1	-
Equity Income Dist	100.6	107.1	...	5.01
Managed Dist	95.5	101.7	-0.2	5.33
High Yield Dist	99.7	105.1	-0.4	7.41
Pension Funds				
Balncd Grth Mgd Pens Acc	718.6	756.5	-3.9	-
Adventurous Mgd Pens Acc	154.8	163.0	-0.7	-
Cautious Mngd Pens Acc	137.8	145.1	-0.6	-
Building Soc. Acc.	361.3	380.4	....	-
Property Pens. Acc.	295.3	310.9	..	-
Fix. Int. Pens. Acc	618.9	651.5	-0.3	-
Equity Pens. Acc.	904.0	951.6	-8.3	-
International Pens Acc	291.9	307.3	-2.4	-
High Inc Pens Acc	610.5	642.7	+0.8	-
Tech Pens Acc.	295.7	311.3	-2.0	-
N American Pens Acc	315.5	332.2	-1.0	-
Far Eastern Pens Acc.	404.3	425.6	-7.1	-
Special Sits Pens Acc.	409.6	431.2	-1.3	-
Extra Income Pens Fd.	363.6	382.8	+0.8	-
Convertible & Gilt Pen.	175.0	184.3	-1.0	-
American Inc Pens.	191.6	201.7	-0.1	-
European Pens.	125.4	132.0	-0.5	-
Managed Cash Pens.	170.1	179.1	....	-
Pref & Fixed Pens	125.4	132.0	-0.1	-
UK Blue Chip	119.2	125.5	-0.2	-
Recovery Fund	109.5	115.3	-0.2	-
Balncd With Profits Pen.	106.8	112.5	..	-
Other Funds				
Margetts Growth	116.4	122.6	-2.3	-
Margetts Income	118.2	124.5	-1.7	-
Margetts Pension	127.4	134.2	-2.7	-
NCH Managed	118.3	124.6		-
B&B Select Mngd.	101.7	107.1	+107.1	-
JLU Managed Pension	121.3	127.7	-1.7	-
IAS Managed	114.9	121.0	+0.2	-
Techinvest Retirement P'folio	104.0	109.5	-0.3	-
FTC Prosperity	150.0	158.0	-0.6	-
Cap Retirement P'folio	126.7	133.4	-1.3	-
Pembroke Intl	94.2	99.2	-0.2	-
Euro Balanced Portfolio	94.9	99.9	-0.2	-
IAS Pension Managed	138.7	146.1	+0.1	-
Capital Income & Growth	110.0	115.8	-0.4	-
Map Balanced Accum	106.6	112.3	-0.4	-
Countrywide Managed Pens.	98.9	104.2	-0.2	-
Invest Bureau Inc & Grth	100.2	105.5	-0.3	-
Techinvest Retirement P'folio 2	100.2	105.5	-0.2	-

Prosperity Life Assurance Ltd

1 Sessions Hse Sq, Maidstone ME14 1XX 0622 690555

	Bid Price	Offer Price	+ or -	Yield Gross
Initial Equity	156.5	165.5	(z)	-
Accum Equity	236.5	249.5	(z)	-
Accum Managed	244.5	258.0	(z)	-
Accum Five Star	169.0	178.0	(z)	-
Accum World	134.0	141.5	(z)	-
Accum Emerg Mkts	194.0	205.0	(z)	-
Pens Acc Equity	262.5	277.0	(z)	-
Pens Acc Managed	314.5	332.0	(z)	-
Pens Acc Emerg Mkts	221.5	233.5	(z)	-
Pens Acc Deposit	229.0	241.5	(z)	-
Pens Acc Five Star	185.5	195.5	(z)	-

Providence Capital Life Assc. Co Ltd

Reliance Mutual

Reliance House, Tunbridge Wells, Kent 0892 510033

	Bid Price	Offer Price	+ or -	Yield Gross
Deposit Acc Fd.	167.0	175.8	----	-
Equity Acc Fd.	385.6	405.9	-0.4	-
Managed Acc Fd.	337.1	354.8	----	-
Prop Fd (1st Issue)	-	614.1	----	-
Prop Acc Fd (2nd Iss)	121.4	127.8	----	-
Unit Trust Mo. Fd.	156.0	164.2	----	-
RL Pension Funds				
Deposit Acc.	242.0	254.8	+0.1	-
Equity Acc.	283.3	298.2	-0.4	-
Fixed Int Acc.	242.8	255.6	----	-
Gilt Indx Lnk Acc.	184.6	194.3	----	-
Managed Acc.	372.7	392.3	----	-

J Rothschild Assurance PLC

J Rothschild House, Dollar Street, Cirencester

Telephone: 0285 640302 Helpline: 041 307 6500

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
JRA/M&G Managed	108.4	114.2	-0.5	-
JRA/Scottish Amicable Mngd	104.4	109.9	+0.1	-
JRA/St James's Place Mngd	110.6	116.5	-0.5	-
Deposit	99.3	104.6	----	-
Far East	111.2	117.1	-2.0	-
Gilts	103.0	108.5	-0.3	-
Greater European	106.5	112.2	-0.8	-
North American	123.8	130.4	-0.7	-
UK Equity	108.3	114.0	+0.2	-
Pension Funds				
JRA/M&G Managed cap.	106.0	111.6	-0.3	-
JRA/M&G Managed acc.	109.2	115.0	-0.3	-
JRA/Scottish Amicable Mngd cap	101.0	106.4	+0.1	-
JRA/Scottish Amicable Mngd acc	104.2	109.7	+0.1	-
JRA/St James's Pl Mngd cap	112.5	118.5	-0.5	-
JRA/St James's Pl Mngd Acc	115.9	122.1	-0.5	-
Deposit cap.	99.6	104.9	+0.1	-
Deposit acc.	102.6	108.1	+0.1	-
Far East cap.	107.5	113.2	-2.2	-
Far East acc.	110.8	116.7	-2.2	-
Gilts cap.	101.0	106.4	-0.4	-
Gilts acc.	104.2	109.7	-0.3	-
Greater European cap.	106.1	111.7	-0.8	-
Greater European acc.	109.3	115.1	-0.8	-
North American cap.	128.1	134.9	-0.7	-
North American acc.	132.0	139.0	-0.8	-
UK Equity cap.	104.9	110.5	+0.1	-
UK Equity acc.	108.1	113.8	+0.1	-

Royal Heritage Life Assurance Ltd

Peterborough Business Pk, PE2 6GG 0733 390000

	Bid Price	Offer Price	+ or -	Yield Gross
Multi Garth		380.0	----	-
Multi Garth A Cap.	380.3	400.4	----	-
Multi Garth A Accum.	580.0	610.6	..	-
Op Prop.	405.0	426.4	----	-
Op Equity	778.5	819.5	+1.4	-
Op High Yld.	492.6	518.6	+0.6	-
Op Man	619.2	651.8	-1.1	-
Op Dep.	367.1	386.5	+0.4	6.75
Op Inc Dist.	191.6	201.7	+0.2	8.16
Op Itn Man.	345.8	364.0	-4.4	-
Op Emerging Co's	291.5	306.9	+3.3	-
Op Money	102.2	107.6	+0.1	-
European	95.8	100.9	-0.5	-
Pension Funds				
Property Ser B	755.6	795.4	----	-
Equity Ser B	2438.7	2567.1	-2.0	-
Fixed Interest Ser B	927.3	976.2	+0.4	-
Managed Ser B	1235.5	1300.6	-3.2	-
Deposit Ser B	773.5	824.3	----	-
Money Ser B	101.8	107.2	----	-
Property Ser D		197.1	----	-
Equity Ser D		167.5	-0.2	-
Fixed Interest Ser D		233.7	+0.1	-
Managed Ser D		160.6	-0.4	-
Deposit Ser D		233.1	----	-
Money Ser D		108.8	+0.1	-
Pension Unit Trust Funds				
Gartmore Global Ser B	198.5	209.0	-2.2	-
Gartmore NA Ser B	138.0	145.3	-1.9	-

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance plc

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Standard Life Assurance Company

Sun Alliance Group

Sun Alliance Group – Contd.

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

Swiss Pioneer Life Plc

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Templeton Life Assurance Limited

Tunbridge Wells Equitable

Western Assurance Society

Windsor Life Assur Co Ltd

Woolwich Life Assurance Co Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)

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JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (REGULATED)

LUXEMBOURG (REGULATED)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

D-Mark hit by pay settlement

PRESSURES on the franc eased yesterday as a news of weak growth in Germany, including a surprisinglu low pay deal, prompted widespread selling of the D-Mark. The sell-off led to a switch into sterling which performed well against both the German and US currencies, *writes Peter John.*

The franc had received some continuing support from the French central bank which had been intervening in early trading. It received a further boost when Mr Michel Sapin, the French finance minister, said France and Germany would do everything in their power, jointly, to preserve the current parity of their two currencies.

In a warning shot to speculators who had been testing the strength of the currency over the past two days, Mr Sapin said: "Anyone who wants to damage the franc-mark link will find himself faced with the solidarity of the two (finance) ministers and the two central banks." The franc, which had languished at around FFr3.411 against the D-Mark over the past two days despite intervention from the Bundesbank as well as the Bank of France, lifted to FFr3.404 and reached FFr1.859 against the dollar, up from FFr1.866.

Meanwhile, pressure on the D-Mark developed in the far eastern markets as investors sold the D-Mark in exchange for pounds, yen francs and dollars.

When the European markets opened the pressure intensified as Germany announced a surprisingly moderate pay settlement with steel workers. A 3.3 per cent rise over 18 months against demands of about 7.5 per cent gave a strong pointer to the strains on the economy and the impending need to cut interest rates. The settlement implications were compounded by disappointing economic statistics and the D-Mark tumbled a pfennig to DM1.580 against the dollar.

Meanwhile, sterling, ignored for so long, put on a bravura performance that was said to have been prompted by a significant purchase from one UK institution.

It was suggested that a complicated cross, carried out through one clearing bank involving mark and yen and worth around £500m, gave the initial impetus to the UK currency. Then, when the pound broke through the DM2.45 barrier, a bear squeeze developed as dealers who had sold sterling earlier in the week as the were caught short.

The pound surged nearly four pfennigs to to DM2.475 regaining a level last reached in mid-October. It was also one and a half cents stronger against the US currency, closing at $1.5640.

Most dealers argued however that the sharp rise in sterling did not presage economic recovery but rather pointed to a reassessment of a currency that had been left on the sidelines for some time and was beginning to look cheap.

Elsewhere among European currencies, the Irish central bank said it had arranged to borrow up to DM4bn from German banks in order to support the Irish punt in the foreign exchange markets.

£ IN NEW YORK

Dec.3	Latest	Previous Close
£ Spot	1.5665-1.5675	1.5520 1.5530
1 month	0.42-0.40pm	0.42 0.40pm
3 months	1.26-1.24pm	1.27 1.24pm
12 months	3.61-3.53pm	3.80 3.70pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec.3	Previous
8.30 am	79.6	79.3
9.00 am	79.6	79.1
10.00 am	79.7	79.3
11.00 am	80.0	79.3
Noon	80.2	79.3
1.00 pm	80.4	79.4
2.00 pm	80.6	79.5
3.00 pm	80.5	79.6
4.00 pm	80.5	79.5

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Dec. 3	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	182.194	175.788	−3.52	5.03	59
Spanish Peseta	143.386	141.858	−1.07	2.43	19
Dutch Guilder	2.21958	2.20644	−0.59	1.94	31
Belgian Franc	40.6304	40.4075	−0.55	1.90	29
D-Mark	1.96992	1.96257	−0.37	1.72	27
French Franc	6.60683	6.67560	1.04	0.30	−56
Irish Punt	0.735334	0.743809	1.15	0.18	−50
Danish Krone	7.51410	7.61473	1.34	0.00	−59

CURRENCY RATES

Dec 3	Bank rate %	Special * Drawing Rights	European † Currency Unit
Sterling	–	0.901557	0.793206
U S Dollar	3.00	1.38794	1.23978
Canadian $	6.18	1.77823	1.58196
Austrian Sch	8.25	15.4436	13.8090
Belgian Franc	7.75	45.1393	40.4075
Danish Krone	9.50	8.52195	7.61473
D-Mark	8.25	2.19211	1.96257

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

CURRENCY MOVEMENTS

EURO-CURRENCY INTEREST RATES

OTHER CURRENCIES

	£	$
N.Zealand	3.0250 - 3.0290	1.9335 - 1.9365
Saudi Ar	5.7560 - 5.8325	3.7495 - 3.7505
Singapore	2.5585 - 2.5660	1.6390 - 1.6400
S.Af (Cm)	4.6835 - 4.6960	2.9960 - 2.9980
S.Af (Fn)	7.5230 - 7.5780	4.7960 - 4.8310
Taiwan	39.65 - 39.80	25.35 - 25.45
U.A.E.	5.6360 - 5.7125	3.6715 - 3.6735

*Floating rate. Iran Official rate £99.70 $66.20

EXCHANGE CROSS RATES

Yen per 1,000; French Fr. per 10; Lira per 1,000; Belgian Fr per 100

FINANCIAL FUTURES AND OPTIONS

BASE LENDING RATES

Citibank NA	7	Hongkong & Shanghai	7	Western Trust	7
City Merchants Bank	7	Julian Hodge Bank	7	Whiteaway Laidlaw	7
Clydesdale Bank	7	● Leopold Joseph & Sons	7	Yorkshire Bank	7
Co-operative Bank	7	Lloyds Bank	7		
Coutts & Co	7	Meghraj Bank Ltd	7		

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

Rate cut hope revives

SHARP rises in the pound yesterday, and a rebound in gilts following Wednesday's auction, enabled short sterling to continue its climb back towards the level which would signal further interest rate cuts *writes Peter John.*

Short sterling for March delivery, the contract which has become the lead indicator for the direction rates might take, was sold very heavily down to 93.19 on Monday. That showed a divergence of nearly seven percentage points from 100 and suggested to some that the current cent base rate was here to stay. Since then, the contract has picked up steadily as increasingly gloomy news from mainland Europe has pinpointed the UK as a potential safe currency haven.

UK clearing bank base lending rate
7 per cent
from November 13, 1992

Buying of sterling, especially from Germany was seen yesterday and the pound's attractiveness encouraged short sterling dealers to mark up the contract by nine basis points at the start of trading. March continued firm throughout the day and closed only two basis points off the day's high at 93.54 with 24,000 lots dealt. December, which is now only reacting to technical factors, opened at 92.78 and ended the day six better at 92.84 with nearly 10,000 lots dealt.

Meanwhile liquidity shortage levels among the clearing banks returned to normality following wild swings earlier in the week. The Bank of England said it would offer the money market an early round of assistance after forecasting a liquidity shortage of around £900m. Among the main factors affecting the position were the take-up of treasury bills and paper maturing in official hands, which were expected to drain £350m from the system, bankers' balances below target, which would take out £250m, exchequer transactions, which would remove £135m and a rise in note circulation which would withdraw £160m.

The Bank later provided the money market with £615m of early assistance, buying bills for resale to the market on December 30 at an interest rate of 6 13/16 per cent.

The help took pressure off overnight rates which opened at 6 3/8 per cent and came back to around 4.5 per cent by the close. The Bank provided £500m in the afternoon, buying £477m of band one bills and £23m of band two bank bills, both at 6 7/8 per cent and bringing total help to £1.115bn. This compared with a raised forecast shortage of £1.15bn.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

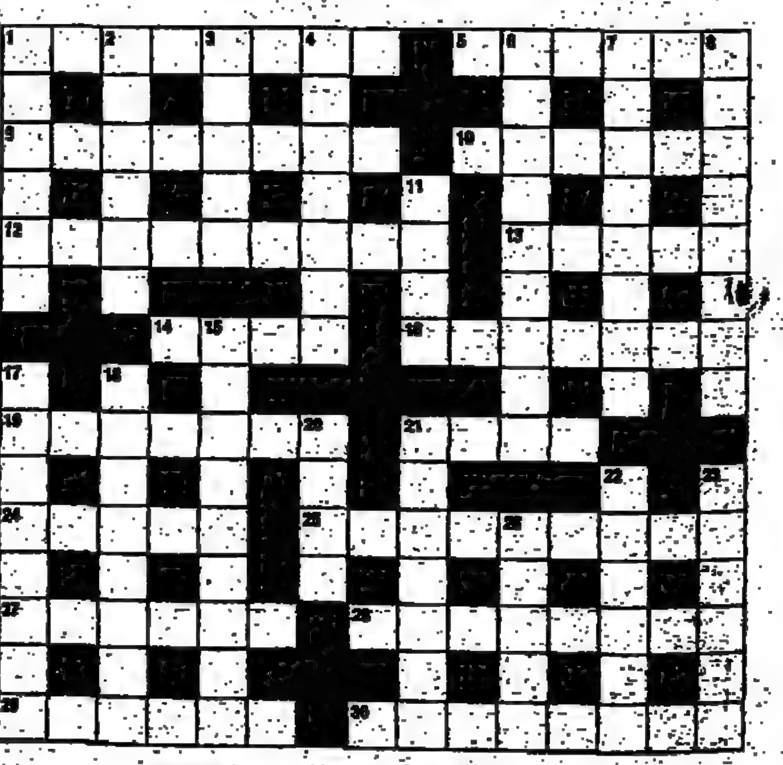
MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

CROSSWORD

No.8,020 Set by HIGHLANDER



ACROSS
1 Bully hit on forehead (8)
5 MP appears better after wine (6)
9 Saw and liked crazy paving in New York (8)
10 This game is mine (6)
12 Having got there working with a competitor, one hears (2,7)
13 An attempt to conceal note from foreign friend (5)
14 Leader is in sight – it's a Russian (4)
16 Group of three going on tour is allowed (7)
19 Not given a test – turned adrift without one (7)
21 Drifting snow has now moved south (4)
24 Puts an end to a thousand misfortunes (5)
25 Something startling I said to leading batsman (3-6)
27 Lost letter taken from smoker's refuse collector (6)
28 Binding strips put strain on heavy fabric (8)
29 Unreliable seat at back of old car (6)
30 Try to catch one – the French are very lazy (4,4)

DOWN
1, 17 Football team has extraordinary luck and a church leader up front (6,8)
2, 18 Vintage radio enthusiast gets fit for football team (6,8)
3 South African embraces wife in leafy glade (5)
4 Finished everywhere (8,4)
6 Big bird disturbed at lion imitation (9)
7, 22 Football team led until care is thrown to the winds (8,6)
8, 23 Football team work at common trap and are endlessly cunning, they say (8,6)
11 Even apartment is dull (4)
15 Neat pattern incorporating brightly coloured fruits (9)
17 See 1 down
18 See 2
20 Some rabbits drop off, according to speaker (4)
21 Free range eggs are without seasoning (7)
22 See 7
23 See 8
26 Run through, ignoring [illegible] bit (5)

Solution to Puzzle No.8,019

WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · GERMANY · ITALY · NETHERLANDS · NORWAY · SPAIN · SWEDEN · SWITZERLAND · SOUTH AFRICA · JAPAN · AUSTRALIA · HONG KONG · MALAYSIA · SINGAPORE

CANADA

TORONTO

3 pm December 3

MONTREAL

2:45 pm December 3

INDICES

NEW YORK

STANDARD AND POOR'S

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA

TORONTO

TOKYO - Most Active Stocks

Wednesday, December 3, 1992

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	11.1m	283	+3	Nippon Juteld	3.1m	300	+5
Nippon Carbon	4.7m	513		Sumitomo Mtl	3.0m	267	+1
Mitsubishi Hvy	4.3m	580	7	Uni-Charm	2.8m	1,700	+80
Morinaga Milk	4.2m	700	+57	Sharp	2.8m	944	+3
Kawasaki Steel	3.2m	283	-1	Mitsui Min	2.5m	486	-4

3 pm December 3

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
13⅞	11	AAR Corp	0.48	4.0	19	219	12	11⅞	12	
26½	18	A L Labs A	0.18	0.8	144	3201	23¼	22¾	23¼	+1
68⅛	52⅝	AMP Inc	1.52	2.7	21	2827	57½	56⅜	57	−⅜
80¼	54⅞	AMR			13	2599	65⅝	64⅝	65⅝	+¾
2⅛	1⅝	ARX			11	24	1⅞	1¾	1¾	
63½	30½	ASA	2.00	5.9	22	310	33⅞	33½	33⅞	−⅛
34¼	28⅛	Abbott Lab	0.60	2.0	21	5906	30⅞	30⅛	30¼	
13⅞	10⅛	Abitibi Pr	0.40	3.6	5	2	11	11	11	
11⅝	10½	ACM Gvt In	0.96	8.8		420	11	10⅞	10⅞	−⅛
10⅜	9⅞	ACM GvOpp	0.80	8.5		26	9⅞	9⅛	9⅛	
9¾	8½	ACM Gvt Sp x	0.91	10.3		66	9	8⅞	8⅞	−⅛
11⅞	10⅛	ACM Gvt Sc x	1.01	10.1		4323	10½	d9⅞	10	−½
10⅝	8⅞	ACM Man	1.08	10.8		159	10⅛	10	10	−⅛
12⅞	9	ACM Managd	0.78	8.8		309	9⅛	d8⅞	8⅞	−⅛
11¾	4¾	Acme Cleve	0.40	4.6	16	29	8⅞	8⅝	8¾	
6¼	3¾	Acme Elect			97	19	5	4⅞	4⅞	
33¾	14⅞	Acuson			12	347	16¾	16⅝	16⅝	
21	18⅛	Adams Expr	1.62	8.2	1	16	19⅞	19⅞	19⅞	
49⅛	29½	Ad Micro x	3.00	7.2		1535	42½	41	41⅞	−2⅞
21½	7½	Ad Micro P	3.00	18.6	5	3252	16⅛	15⅝	16⅛	−1⅞
9⅛	4⅞	Advest Grp	0.16	2.7	12	100	6⅛	5⅞	5⅞	−⅛
42¾	33	Aegon ADR	1.35	3.3	7	23	41⅛	40½	40½	−½
47⅛	35	Aetna Li	2.76	5.9	13	1864	u47½	46¾	47⅛	+⅛
12¾	6⅞	Afil A	0.24	2.1	15	1440	11½	11⅜	11½	
34	24	Aflac	0.44	1.4	14	616	32	31⅞	31⅞	−⅛
19⅞	13	Ahmanson	0.88	5.3	8	774	17	16⅝	16¾	−⅛
22½	4	Aileen Inc			14	812	8⅝	8⅛	8⅝	+⅛
49½	36½	Air Pr Chm	0.86	1.8	19	853	48⅞	48⅛	48½	−⅛
29¾	12½	Airbne Frt	0.30	1.8	102	130	18¾	18⅛	18½	+⅛
21½	11¼	Airgas Inc			29	104	20½	19⅛	19¾	−¾
12⅞	8⅛	Airlease	1.68	15.4	8	23	10⅞	10⅞	10⅞	
104	99	AlaPw8.16 x	8.16	8.1		6	100½	99½	100½	
105	100¼	Alab 8.28C x	8.28	8.0		3	103	102	103	
11¼	10½	AlaPwOpPf x	0.87	8.1		26	11	10⅞	10¾	+⅛
23⅞	14¾	Alaska Air	0.20	1.2	6	607	16⅞	16⅛	16½	
[illegible]										

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

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- H -

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- I -

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- J -

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- K -

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- L -

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- M -

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- N -

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- P - Q -

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- R -

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- S -

[illegible]

Continued on next page

هكذا من الأصل

NYSE COMPOSITE PRICES

Continued from previous page

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close	Chg
82¼	66½	Xerox x	3.00	3.8	16	785	78⅝	77⅞	78	
55	50½	XeroxC125 x				3	53	53	54	+1
41⅛	24⅞	Xtra 1.94	1.94	4.8		299	u41½	39⅛	40½	+1
57⅛	28½	Xtra Corp	0.80	1.4	17	1026	u57⅜	54⅝	56⅜	+1⅞
30⅝	25⅛	Yankee Egy	1.56	6.1	12	334	27½	27⅛	27⅜	−⅛
1½	½	Zapata			21	27	13/16	⅞	⅞	
11⅛	6	ZenithElec			2	758	6⅞	6½	6⅝	+⅛
19½	14½	Zenith Nat	1.00	6.0	8	91	16⅝	16½	16⅝	
7½	6	Zenix Inc	0.83	12.8		111	6½	6½	6½	−⅛
13⅞	10	Zero Corp	0.40	3.0	20	78	13½	13⅛	13⅛	−⅛
38	27⅞	Zurn Ind	0.88	2.4	42	144	37⅛	37	37⅛	
14⅛	12	Zweig Fund	1.12	8.6		368	13	12⅞	13	+⅛
11	9½	Zweig Totl	0.96	9.4		965	10⅛	10⅛	10⅛	+⅛

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3 pm December 3

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chg
Bowmar		13	35	2½	2⅜	2⅜	−⅛
Bowne	0.30	9	282	14⅞	14⅝	14⅞	
Brascan A	0.87	25	7	11⅞	11⅛	11⅞	
BSN Corp	0.16	26	2244	u15⅞	14½	14⅝	
Cal Engy		17	614	16	15⅞	16	+⅛
Calprop		0	10	⅞	⅞	⅞	
Can Marc	0.23	7	123	10⅛	d10	10	
Chmbrs A	0.01	28	600	4⅞	4⅞	4⅞	−1/16
Chambers		6	77	5	4⅝	4⅞	
Frequency		512	45	u6⅛	4⅞	5⅛	
Fr eLoom		20	465	46⅛	45⅞	45⅞	−⅛
Giant FdA	0.66	17	283	20⅞	20⅛	20⅞	+⅛
Glatfltr	0.70	12	433	18⅛	17⅞	18⅛	+⅛
Goldfield		3	546	u13/16	⅞	⅞	−1/16
Greenman		6	58	8⅛	8⅞	8⅛	+⅛
Gulf Cda	0.34	4	1474	3⅞	3⅞	3⅞	−1/16
Hasbro	0.30	20	720	u35⅞	35½	35⅞	+⅜
Moog A		8	88	5⅞	5½	5½	−⅛
MSR Expl		1	100	⅝	⅝	⅝	
Nat Ptnt		12	274	3⅛	3⅛	3⅛	−⅛
New Line		30	94	13⅝	13⅛	13⅝	−⅛
NY TimeA x	0.56	70	1231	27⅞	27½	27⅞	
NthCanOil	0.17	50	z100	9⅛	9⅛	9⅛	
Nwac Oil A		2	35	4⅞	4⅞	4⅞	
NV Ryan		0	469	½	½	½	−1/16
Odetics A		75	23	6	6	6	
Olsten	0.32	29	524	u35⅛	34⅝	35⅛	+⅛
Pegasus G	0.10	28	517	13⅞	13⅞	13⅝	+⅛
Peried	0.80	17	18	17½	17⅛	17⅞	−⅛
Pet H&P	1.14	11	z100	16⅞	16⅞	16⅝	−⅛
Phil LD	0.25	15	157	36⅞	36	36	
Pitway A	1.10	18	5	33⅞	33⅞	33⅞	−⅛
UtdFoodsB	0.20	5	25	2 1/16	2	2	
UnivPats		47	z100	10⅞	10⅞	10⅞	
US Cellul		93	3	21½	21½	21½	−⅛
VirnigLab C		0	10	1⅛	1⅛	1⅛	
VirnigLab B		0	1587	⅞	7/16	7/16	−1/16
Weatherfd		115	49	5⅞	5⅞	5⅞	
Westamer	0.52	9	27	21⅞	21⅞	21⅞	−⅛
WIRET x	1.12	18	47	12⅝	12⅝	12⅝	
Worthen	0.16	10	15	26⅛	26⅝	26⅝	
Xytronix		7	54	7⅞	7½	7½	−⅛

NASDAQ NATIONAL MARKET

3 pm December 3

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Volvo B	2.26	37	20	48⅞	47⅞	47⅞	−1⅞
- W -							
Warner En	0.08	22	221	u21½	20½	21⅛	+⅛
Warmtech		47	440	2 13/16	2⅞	2⅞	
WashMutSB	0.56	10	894	31⅞	30⅞	30⅞	−½
WashFedSL	0.84	11	152	28⅛	27½	28⅛	+⅛
Watsinsd A x	0.28	18	19	48½	47	47	−⅛
Wausau Pl	0.34	17	73	47	45⅞	47	
WD-40	1.80	18	48	43½	42½	43	−½
Wellfleet		3	141	5⅛	5	5	
West One	1.04	12	721	48½	47⅞	47⅞	−½
WstnPubl		23	2721	21	20⅞	20⅞	−½
Wst SealA		19	110	9	8½	8½	+⅛
Willamette x	0.84	24	501	39⅛	38½	39	
WindSonic		76	3488	12	11½	11½	−⅛
Wiser Oil x	0.40	468	245	14⅞	13⅞	14	+⅜
Wolohan L x	0.28	15	122	u23⅛	22½	23⅛	+⅛
Wolv Expl		0	285	⅞	d1/16	⅛	+1/16
WrldExWDA			28	1/16	d1/16	1/16	
Worthgtn x	0.48	23	176	22	21½	22	+⅛
WPP Group	1.11	1	588	1 3/16	1⅞	1⅞	
Wyman-Gdn	0.40	1	357	5⅞	5⅞	5⅞	
- X - Y - Z -							
Xilinx		23	842	21	20⅛	20⅞	
Xoma Corp		515	832	12⅛	9½	11½	+1½
Yellow Fr	0.94	22	3813	29⅛	27⅞	28⅛	+⅞
York Rsch		7	3387	7⅞	6⅞	7	+1/16
ZionsUtah	1.44	12	21	74	72	73½	−½

FINANCIAL TIMES Friday December 4 1992

AMERICA

Dow claws back early loss on recovery hopes

Wall Street

ALTHOUGH blue-chip stocks continued to lose ground on profit-taking, the rest of the US stock markets either held their ground or posted new gains on growing confidence in the economy, *writes Patrick Harverson in New York.*

By 1 pm the Dow Jones Industrial Average was down 10.80 at 3,275.45, although off its lows of the first hour when it had been down 16 points. The broadly based Standard & Poor's 500 was down only 0.13 at 429.76, while the Amex composite slipped 0.21 to 392.35 and the Nasdaq composite firmed 1.28 to 654.19, a new high for the index. Turnover on the NYSE was heavy at 142m shares by 1 pm, and declines outpaced rises by 838 to 741.

Analysts regard the selling of the last few days as a temporary correction in prices following the recent period of strength. The fundamentals of the market, meanwhile, remained positive, with investors encouraged by signs that economic recovery is picking up. However, there were some concerns about the possible revival in inflation.

The morning's news was mostly positive. Jobless claims fell 12,000 in the third week of November, October factory orders increased 7 per cent, third quarter non-farm productivity rose 3 per cent, and the latest car sales figures showed strength. Today the November employment report is due to be released.

Woolworth fell $⅞ to $31¼ in early trading after the

retailer reported that November domestic same-store sales fell by 1.1 per cent, and that total sales fell by 6.9 per cent in the month. Although the figures disappointed some investors who had hoped for a post-election bounce in consumer spending, optimism about a strong Christmas period helped Woolworth's shares recover to stand unchanged at $32 soon after midday.

Advanced Micro plunged $2¼ to $15¾ in turnover of 2.7m shares after a judge ruled that the company had no right to copy certain Intel software in versions of the 486 personal computer microprocessor.

The ruling means that the introduction of a 486 chip to compete with the Intel 486 will be delayed, allowing Intel to enjoy a longer period without competition. Intel, which is traded on the Nasdaq market, jumped $2¾ to $76 in turnover of 3.5m shares

Also on Nasdaq, Pomeroy Computer climbed $1½ to $5½ after the Cincinnati-based technology company announced it had signed three agreements that would generate more than $31m in sales and service revenue over the next 12 months.

Canada

TORONTO weakened slightly at midsession as the TSE-300 index slipped 0.2 to 3,265 in volume of 16.9m shares valued at C$136.5m. Declines outpaced advances by 191 to 170, with 257 unchanged.

The consumer products sector received a boost from a recovery in Seagram, following the weakness on Wednesday: its shares improved C$¾ to C$34¼. The consumer products index gained 49.63 to 6,053.91.

France fails to live up to expectations

An economic slowdown and pressure on the franc are to blame, says Alice Rawsthorn

This time last year if any analyst had been asked to predict which European stock markets were likely to be the best performers in 1992, Paris would almost certainly have been at, or near, the top of the list.

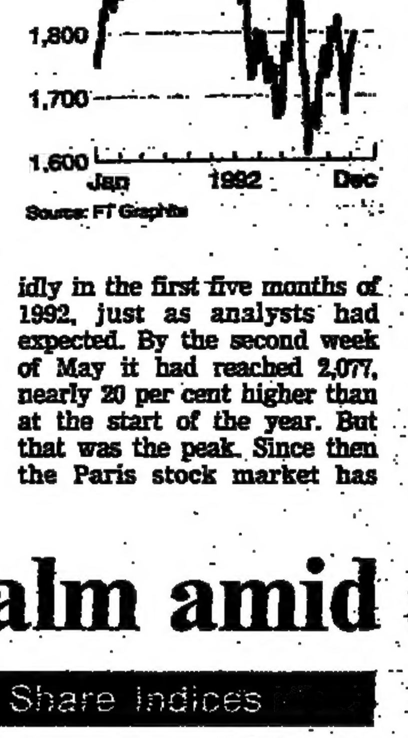
So much for predictions. The CAC 40 index now stands just below 1,800, almost the same level as at the start of the year. The French economy has grown faster than many of its European counterparts, notably Germany, but not quite as fast as even the most sceptical analysts expected.

In retrospect the analysts appear to have been hopelessly over-optimistic in their initial forecasts. But at the time they had every reason to expect 1992 to be a robust year, both for France's economy and for the Paris stock market.

The French economy had slowed down in 1991, reflecting the impact of high real interest rates on domestic demand and the effects of the global recession on France's export markets. The same trends seemed set to continue into 1992. But analysts – and the French government – harboured hopes of an improvement in exports as, thanks to years of low inflation, French companies had become cost-competitive in the international marketplace.

There also appeared to be little risk of an economic *volte face* from France's socialist government which, led by Mr Pierre Bérégovoy, first as finance minister and then as prime minister, continued to cling to its rigid fiscal policy, despite the continuing increase in unemployment and the steady slide in its popularity in the approach to next spring's elections.

The CAC 40 index rose rap-



idly in the first five months of 1992, just as analysts had expected. By the second week of May it had reached 2,077, nearly 20 per cent higher than at the start of the year. But that was the peak. Since then the Paris stock market has fallen fairly steadily, dipping down to 1,611 in early October.

Growth is the problem. The domestic economy has been stubbornly static, both in terms of consumer spending and corporate investment. Meanwhile exports have slowed down, initially because of the global economic slowdown and latterly due to the strong franc.

The latest analysis from Paribas forecasts growth of just 1.9 per cent for 1992. The prospects for 1993 could be worse. Société Générale warns that France could fall into a vicious circle whereby confidence crumbles, thereby stopping companies from making the investments needed to regenerate the economy.

Meanwhile, the French economic scene is now dominated by one overwhelming issue – what will happen to the franc?

The critical question is whether the franc can continue to resist market pressure to devalue. Both the Bank of France and its new best friend, Germany's Bundesbank, have been forced yet again to bolster the franc in recent weeks.

The government insists that it has no intention of abandoning its *franc fort* policy of protecting the franc. Indeed to do so before the elections next March would deal a devastating blow to Mr Bérégovoy's credibility, even if it would seem to be the easiest way of avoiding a slowdown in exports and reviving the rest of the economy.

Most analysts suspect that, although the pressure will persist, the franc will probably pull through. The market will then have to bide its time until the elections to see whether the next government has same attachment to the franc.

EUROPE

Frankfurt stays calm amid signs of recession

CONFIRMATION that Germany was closer to recession did not have much impact on Frankfurt yesterday, while Paris was lifted by renewed currency and interest rate speculation, *writes Our Markets Staff.*

FRANKFURT lost early gains as investors took the view that there was little to get excited about in yesterday's batch of corporate results. The DAX index, which had reached a high of 1,539 early on, fell to an intraday low of 1,526 before closing down 1.46 at 1,532.50. Turnover was little changed at DM4.7bn from DM4.8bn.

A 1.5 per cent fall in west German GNP in the third quarter from the second quarter in line with expectations while news that the steel workers had accepted an 18-month pay package worth 3.3 per cent was taken as a sign that realism had entered wage settlements. On Tuesday insurance employees accepted a 4.2 per cent salary increase, having sought 7.5 per cent.

Commerzbank provided no surprises in its 10-month figures when it reported a 13 per cent rise in group operating profit. The shares initially reacted with a DM2.20 gain to the day's high of DM247.00 but came back after the bank said that there was no room to improve last year's DM10 dividend to close unchanged at DM244.80

Elsewhere in the sector, Deutsche Bank lost DM3.50 to DM669 ahead of its results next week, while Bayerische Hypo Bank was unchanged at DM402 on a 12 per cent increase in operating profit.

Henkel lost another DM18 or 3 per cent to DM551 on Wednesday's disappointing 1992 profits forecast and Volkswagen was DM1.70 weaker at DM253.30 after the company said orders for its vehicles were declining in spite of a 5.6 per cent rise in deliveries in the first 10 months. Kugelfischer, forecasting full-year losses above DM132m as against a DM81m deficit in 1991, eased DM2 to DM112.

FT-SE Actuaries Share Indices

December 3 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1055.58	1054.90	1053.62	1053.18	1053.78	1055.09	1056.12	1055.11
FT-SE Eurotrack 200	1133.33	1133.17	1133.34	1134.46	1138.21	1139.19	1139.42	1136.09

	Dec 2	Dec 1	Nov 30	Nov 27	Nov 26
FT-SE Eurotrack 100	1052.11	1056.79	1057.75	1049.92	1048.05
FT-SE Eurotrack 200	1130.96	1135.62	1132.14	1122.37	1118.56

Base value 1000 (26/10/90) High/day: 100 - 1057.16; 200 - 1142.58 Low/day: 100 - 1053.03 200 - 1132.45

PARIS rose briefly above 1,800 on renewed speculation that Germany would lower interest rates next week and that the franc would be devalued. The CAC-40 index rose as high as 1,805.39 but later closed up 16.10 at 1,799.43 in good turnover of FFr2.7bn.

Interest-rate sensitive stocks were among the gainers, as Société Générale rose FFr13 to FFr567 and Compagnie Bancaire put on FFr6.40 to FFr361.50.

Thomson-CSF shares rose FFr6.40 to FFr132.90 on a newspaper report that the company might win an order to sell fighter aircraft electronics to Abu Dhabi.

Euro Disney steadied after its recent drop, closing FFr1.30 higher at FFr57.80.

The drinks group Pernod Ricard bucked the trend, falling FFr5.4 to FFr371.6.

MILAN ended lower on worries that a disagreement between the treasury and the industry ministry on the timetable for planned privatisations would hold up the sell-off of state companies. The Comit index fell 6.8 to 426.46 as turnover continued to decrease steadily, to an estimated L160bn from L171bn on Wednesday.

Generali was in focus, as it dropped L280 to L27,740 on one or two big sell orders. However, its drop below 28,000 prompted some buying interest, dealers said.

The hotel group Ciga remained weak on worries about its financial situation and the shares fell L137 or 13.2 per cent to L898. The retailer Rinascente regained some ground after its recent fall, rising L162 to L6,732.

AMSTERDAM turned its attention to Daf after the truck maker announced further restructuring plans and said that it hoped to conclude talks soon with banks regarding a refinancing package. The shares were temporarily suspended at Fl 5.40 and then closed unchanged at Fl 6.20, though some analysts commented that there was really nothing new in the announcement. The CBS Tendency index was 1.2 higher at 105.6.

Cyclical stocks remained in favour with investors: DSM up Fl 1.00 at Fl 81.50, Akzo rising Fl 1.50 at Fl 137.70 and KLM firming Fl 1.60 to Fl 26.60. ING, which reported a 6.6 per cent rise in nine-month net profit just after the close, was unchanged at Fl 49.60.

MADRID remained buoyant as the general index closed 2.07 higher at 211.40. Repsol came off the day's high of Pta2,600, on news that a chartered Greek tanker had run aground off Spain, raising fears that the company might be liable for clean-up costs. The shares closed Pta30 higher at Pta2,575.

ZURICH was encouraged by lower short-term interest rates as the SMI index gained 4.7 to 1,928.6. SMH, the watch manufacturer, saw its registered shares rise SFr65 to a year's high of SFr1,405.

STOCKHOLM eased as lower domestic interest rates failed to offset gloomy predictions for the Swedish economy. The Affärsvärlden General index fell 2.6 to 882.6 in turnover of SKr700m.

VIENNA fell in light volume as the ATX index closed 8.37 down at 751.54. Wienerberger, the building materials supplier, lost Sch110 to Sch2,850 with a large sell order being noted.

ISTANBUL fell back as metal workers threatened to strike and investors waited for the release today of November inflation data. The 75-share index lost 21.76 to 3,921.88 in turnover of TL192.7bn.

SOUTH AFRICA

STRONG offshore demand for gold shares sent the index up by 42 or 4.8 per cent to 905, though off the day's high of 912. The overall index put on 42 to 3,246 while industrials rose 29 to 4,258. Vaal Reefs gained R2.50 to R149.

ASIA PACIFIC

Fall-out from Hong Kong spreads throughout region

Tokyo

A FURTHER sharp fall in Hong Kong triggered selling in Japanese shares yesterday, *writes Emiko Terazono in Tokyo.*

The Nikkei average fell 133.60 to 17,260.08, although buying by investment trusts and arbitrageurs pushed the index up to the day's high of 17,508.32 at the start of the afternoon session. However, short selling and profit-taking by dealers depressed the Nikkei to the day's low of 17,205.32 just before the close.

Volume rose to 240m shares from 206m. Declines led advances by 573 to 367 with 172 issues remaining unchanged. The Topix index of all first section stocks fell 4.23 to 1,304.08 and in London, the ISE/Nikkei 50 index rose 0.09 to 1,051.29.

Traders said investors used the fall in Hong Kong as an excuse to take profits. "It's a consolidation period, as investors have started to realise that the recent rise may have not be backed by economic fundamentals and corporate profits," said Mr Takatoshi Okuyama at Daiwa Securities.

Most investors, including public funds, waited on the sidelines for third quarter GNP figures which were announced in the afternoon. Traders said that while the 1.6 per cent annualised fall from the previous quarter shocked investors, hopes of an imminent cut in the discount rate emerged.

In spite of the fall on the first section, The second section rose 4.06 to 1,677.76, gaining for the 11th consecutive day as dealers targeted small-capitalisation shares.

Dealers also traded speculative issues, with Nippon Carbon, second most active issue of the day, unchanged at Y613 and Clarion up Y13 to Y485.

High-technology issues were lower on profit-taking, with Toshiba down Y4 to Y618 and NEC retreating Y9 to Y659.

Toy makers, which firmed on hopes of robust sales ahead of Christmas, also fell on profit-taking. Bandai lost Y150 to Y3,630 and Konami fell 80 to Y2,870.

Morinaga Milk Industry jumped Y57 to Y700 on reports that the company had started drug research for a new virus.

In Osaka, the OSE average fell 54.68 to 18,718.60 in volume of 35.4m shares. Machinery and construction stocks fell on profit-taking, while pharmaceuticals and electronics companies gained ground.

Roundup

THE fall-out from Hong Kong was felt throughout the region.

HONG KONG crashed 8 per cent as the stand-off between Governor Chris Patten and China's leaders prompted panic selling across the board. However, a small bounce in the Hang Seng index in the final minutes and a slight premium in December futures on the Hang Seng raised hopes that the market might be close to its bottom.

The Hang Seng index ended 433.44 lower at 4,978.21, but off the day's low of 4,947.75. Turnover jumped to HK$5.3bn from HK$3.6bn. Among the most active stocks, HSBC was down HK$4 at HK$51 and Cheung Kong 90 cents lower at HK$18.

SINGAPORE closed lower in cautious trading as sentiment was dampened by Hong Kong. The Straits Times industrial index fell 11.55 to 1,448.34 in volume of 86.62m shares.

Speculative interest in companies linked to Multi-Purpose Holdings Bhd (MPHB) remained but there was light profit-taking. MPHB lost 7 cents to S$1.65 and it was the most active share with 6.21m traded.

AUSTRALIA was also depressed by Hong Kong but dealers noted an inflow of capital into Australia from Hong Kong. The All Ordinaries index closed 4.6 down at 1,433.8 in turnover of A$141.4m.

The gold sector was weak as an ownership dispute at the Porgera gold mine in Papua New Guinea weighed on shares. The three listed co-owners of Porgera continued a slide begun last month on news that the PNG government wanted to raise its 10 per cent stake to 30 per cent. Placer Pacific slid 8 cents to A$1.10, Highlands Gold 4 to 63 cents and Renison Goldfields 2 cents to A$2.65.

NEW ZEALAND finished lower for the third consecutive day as the market continued to consolidate from a strong run. The NZSE-40 Capital Index closed down 6.02 at 1,519.54 in turnover of NZ$25m.

SEOUL fell after the central bank's rejection of a cut in interest rates. The index closed 11.27 lower at 638.93 in turnover of Won430.87bn.

TAIWAN reversed early gains to end lower and the weighted index closed 21.62 down at 3,614.08 in thin turnover of T$4.9bn.

MANILA rose for the third day on hopes of better economic conditions in the Philippines in 1993. The composite index went up by 6.14 to 1,279.54.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY DECEMBER 2 1992								TUESDAY DECEMBER 1 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (68)	114.32	−0.5	109.45	89.89	93.37	111.31	−0.3	4.36	114.87	110.84	90.33	94.36	111.70	153.68	108.18	152.62
Austria (19)	140.91	+1.8	134.91	110.81	116.09	115.18	+0.4	2.45	138.76	133.89	109.11	113.98	114.70	186.70	137.66	167.16
Belgium (42)	135.92	+0.8	130.14	106.88	111.02	108.44	−0.6	5.68	134.88	130.14	106.05	110.79	109.10	152.27	134.08	132.90
Canada (113)	112.84	+0.2	108.04	88.73	92.16	104.76	−0.1	3.24	112.65	108.69	88.57	92.53	104.90	142.12	111.36	136.17
Denmark (34)	192.65	+1.6	184.45	151.49	157.35	159.76	+0.6	1.71	189.58	182.93	149.08	155.73	158.77	273.94	181.70	252.31
Finland (15)	72.30	−0.3	69.22	56.86	59.05	77.26	−0.7	1.83	72.55	70.00	57.05	59.60	77.60	89.80	52.84	75.80
France (99)	146.88	+0.3	140.63	115.49	119.96	123.44	−0.3	3.65	146.50	141.36	115.20	120.33	123.87	168.75	136.93	137.52
Germany (64)	106.87	+0.0	102.32	84.05	87.29	87.29	−0.6	2.60	106.90	103.15	84.07	87.81	87.81	129.69	102.51	110.05
Hong Kong (53)	218.88	−1.9	209.57	172.12	178.78	217.55	−2.1	4.13	223.13	215.30	175.45	183.29	222.15	262.28	176.36	170.91
Ireland (16)	136.59	+0.6	132.69	108.98	113.19	116.17	−0.4	4.71	137.80	132.97	108.36	113.20	116.59	173.71	122.98	154.85
Italy (77)	55.31	−1.3	52.95	43.49	45.17	57.43	−2.0	3.62	56.02	54.05	44.05	46.01	58.61	80.66	47.47	70.94
Japan (472)	105.36	+0.4	100.88	82.85	86.07	82.85	+0.4	1.02	104.96	101.27	82.53	86.22	82.53	140.95	87.27	131.93
Malaysia (69)	274.16	+0.8	262.49	215.57	223.91	268.03	+1.0	2.47	271.97	262.43	213.66	223.40	265.48	282.42	212.49	202.91
Mexico (18)	1568.03	−1.6	1501.29	1233.02	1280.70	5342.08	−1.5	1.12	1592.84	1536.96	1252.54	1308.42	5422.25	1789.77	1185.84	1328.47
Netherland (25)	153.06	+0.4	146.55	120.36	125.02	123.37	−0.3	4.61	152.43	147.08	119.86	125.22	123.77	169.70	147.88	143.38
New Zealand (13)	42.29	−0.9	40.49	33.26	34.55	43.78	−1.1	5.29	42.68	41.16	33.56	35.06	44.27	48.52	37.39	47.06
Norway (22)	149.86	+2.9	143.50	117.86	122.42	130.75	+1.8	1.85	145.83	140.52	114.52	119.63	128.43	192.95	128.05	163.26
Singapore (38)	205.57	−0.2	196.82	161.65	167.90	155.03	−0.1	2.13	205.93	198.71	161.94	169.16	155.26	229.63	179.65	204.94
South Africa (60)	145.40	+1.1	139.21	114.33	118.75	155.21	+0.0	3.30	143.67	138.62	113.13	118.17	155.27	263.60	134.21	284.29
Spain (48)	114.40	−0.9	109.53	89.96	93.44	98.76	−1.4	6.09	115.48	111.42	90.81	94.86	100.17	161.72	107.10	145.97
Sweden (31)	166.59	−0.4	159.50	131.00	136.07	166.84	−0.8	2.35	167.18	161.32	131.47	137.33	168.23	200.28	149.69	166.49
Switzerland (60)	109.88	+1.3	105.21	86.41	89.76	94.86	−0.2	2.25	108.45	104.64	85.28	89.09	95.10	122.37	95.99	93.73
United Kingdom (227)	170.27	−0.1	163.03	133.88	139.06	163.03	−0.9	4.50	170.41	164.43	133.99	139.97	164.43	200.07	161.86	171.62
USA (522)	175.68	−0.2	168.20	138.15	143.49	175.68	−0.2	2.90	176.07	169.89	138.46	144.63	176.07	176.33	160.92	154.82
Europe (779)	135.74	+0.1	129.96	106.74	110.87	120.98	−0.7	3.89	135.61	130.85	106.64	111.40	121.83	156.88	131.31	137.22
Nordic (102)	151.45	+0.5	145.00	119.09	123.70	136.25	−0.2	2.12	150.75	145.46	118.54	123.83	136.53	168.52	141.24	171.22
Pacific Basin (713)	109.57	+0.2	104.90	86.16	89.49	87.96	+0.2	1.37	109.31	105.48	85.96	89.79	87.75	141.97	93.70	133.35
Euro – Pacific (1492)	120.15	+0.2	115.04	94.48	98.13	101.24	−0.2	2.52	119.95	115.74	94.32	98.53	101.44	145.21	113.80	135.22
North America (635)	171.79	−0.2	164.47	135.10	140.33	170.87	−0.2	2.91	172.14	166.10	135.38	141.42	171.24	172.42	156.70	153.60
Europe Ex. UK (552)	115.01	+0.2	110.12	90.48	93.96	98.20	−0.6	3.43	114.76	110.74	90.26	94.29	98.78	132.98	111.33	116.57
Pacific Ex. Japan (241)	150.83	−0.8	144.41	118.62	123.21	139.37	−0.8	3.81	152.08	146.74	119.61	124.94	140.53	175.31	149.00	147.39
World Ex. US (1683)	121.07	+0.2	115.92	95.21	98.89	103.22	−0.2	2.54	120.87	116.63	95.06	99.29	103.43	146.91	115.99	137.38
World Ex. UK (1978)	135.53	+0.0	129.76	106.58	110.71	121.78	−0.1	2.48	135.52	130.76	106.57	111.33	121.95	150.58	127.21	139.43
World Ex. So. Af. (2145)	138.61	+0.0	132.71	109.01	113.22	125.13	−0.2	2.69	138.62	133.76	109.02	113.88	125.39	153.05	130.04	141.41
World Ex. Japan (1733)	157.37	−0.1	150.67	123.76	128.56	150.19	−0.4	3.27	157.58	152.05	123.93	129.47	150.82	165.40	151.93	149.05
The World Index (2205)	138.55	+0.0	132.65	108.95	113.17	125.43	−0.2	2.69	138.54	133.68	108.95	113.61	125.70	153.70	130.66	142.24

Latest prices were unavailable for this edition.